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12. *Reserve Treasuries.*—Reserve Treasuries were established at Calcutta 1876; and at Madras and Bombay in 1879. The considerations in favour of is course were as follows:—In the decade between 1860 and 1870 the advantage of depositing an excessive amount of the Government balances Presidency Banks had been illustrated by two cases:—

(*a*) On 9th December 1863 the Bank of Bengal held a Government balance of 2,968,000*l.*; and its cash assets consisted only of 1,000,000*l.* (a special coin reserve against Government deposits) and 998,000*l.* available against the remainder of its liabilities to the Government and its liabilities to private depositors. The Government found difficulty in withdrawing money standing to its credit. "For about eight or ten weeks the anxiety was very serious." (Sir C. Trevelyan).

(*b*) The position of the Old Bank of Bombay was unsatisfactory from 1863 until its liquidation, with a loss of capital of about 1,900,000*l.* in 1868. In 1865 and in 1867 there were large withdrawals by the public, and on each occasion the Government had to promise assistance to prevent, or check, panic.

Similarly in 1874, at a time when the Government had a balance of 1,000,000*l.* at the Bank of Bombay, the Bank remonstrated against the proposed withdrawal of 350,000*l.*, and the withdrawal was postponed. (*See* pages 30, 32, and 49 of Appendix II.)

The immediate cause of the establishment of the Reserve Treasuries was the incident of 1874.

## III.

*Alternative methods of dealing with Government balances in India.*

13. The possible changes in the method of dealing with Government balances in India seem to be as follows:—

1. To increase, either with or without interest, the amounts placed with Presidency Banks.
2. To place money with other Banks.
3. To lend on security to firms and institutions other than Banks.

14. The considerations bearing on these alternative methods appear to be as follows:—

*Presidency Banks.*

Between 1899 and 1905 there was considerable discussion in India regarding the position of the Presidency Banks, arising out of the proposal for the establishment of a Central Bank, and ending with certain enlargements of the powers of the Banks made in the Presidency Banks Act of 1907. In the course of the discussion the suggestion was made (but not supported by the Government of India) that the Government should do more than it was then in the habit of doing (and than was contemplated in Lord George Hamilton's Despatch quoted on page 2) to place money at the disposal of the banks in the busy season. So far as such action might lead to a reduction of the rate of discount, especially in the busy season when it seldom fails (*see* Statement I. of Appendix II., page 86) to reach 7 per cent. at Calcutta and Bombay, its advantages are obvious.

15. But there are important considerations to be borne in mind on the other side:—

(1.) Although the total Government balances from 1909 have been in excess of its immediate requirements, this has been due to exceptional causes which have almost passed away. Ordinarily the total balances do not exceed, except perhaps for short periods, what the Government needs, as is shown by the figures in Statement B., pages 74–5. Assistance given to trade in the manner suggested would therefore be liable to be spasmodic, and the withdrawal of money when needed by the Government might cause general inconvenience and disorganisation. I believe that the Government of India have generally attached much importance to this consideration. In a letter to the Secretary of State (Lord George Hamilton), dated 18th January 1900, they said "Regarding the general danger involved in the "financing of trade by the Government, we have before us the words of "Lord Salisbury's Despatch of 6th May 1875, 'Capital supplied by Govern-"'ment, and not representing the savings of the community, is a resource

" ' on whose permanence no reliance can be placed, and which therefore tend
" ' to lead trade into dangerous commitments.' The warning conveyed i
" those words still holds good . . . . The Presidency Banks hav
" excellent reserves, it may readily be admitted. But those reserves could
" not, in the peculiar circumstances of India, be suddenly converted into
" cash, and it seems therefore undesirable that the account of one depositor,
" and that one a Government exposed, as the Government of India is, in a
" most unusual degree, to sudden calls and emergencies, should occupy a
" position of such dangerous importance. To look to no graver contingency,
" it is clear that a sudden call by Government for its money would influence
" discount rates in a way that would seriously hamper trade." I gather that the present opinion of the Government of India is not substantially different from that which was held in 1900. On 18th September 1911 Sir G. Fleetwood Wilson, Member of the Governor-General's Council in charge of the Finance Department, was asked in the Legislative Council "whether Government " will lend to the money markets in " India against the deposit of securities " of approved character when their " Treasury balances are high," and replied, "The Government of India " leave considerable sums out of their " Indian cash balances on deposit with " the Presidency Banks. They do not " consider it advisable to make a practice of lending to the money markets " in India in any other manner or to any larger extent."*

* It will be seen from column 2 of Statement C (showing Money held in the three Reserve Treasuries), page 76, that if during 1912–13 the Government of India had wished to place larger deposits from their Treasury balances with the Presidency Banks, they would not have been prevented by lack of means at that time.

The objection against largely increased deposits with the Presidency Banks from so uncertain a source as the Treasury Balances seems to me very strong; and as much so in the interest of trade as in that of the Government, since it would be most undesirable that such deposits, being made mainly to help trade (unlike the loans from India Office balances, which are made merely to earn interest), should be liable to be suddenly withdrawn whenever the Government was pressed for money.

I should add, however, that this particular objection would have practically no force against any scheme for depositing additional money with the Presidency Banks (at interest and against security), from the Reserve of the Paper Currency Department. A proposal on these lines (except that nothing specific was said about security), was placed before the Government of India by the Bank of Bengal in a letter dated 2nd December 1899.† The following passage is taken from the Bank's letter: "The suggestion which my " Directors would make is that when the Bank rate rises to a height that " indicates undue pressure, the Presidency Banks may be able to rely on " procuring loans through the Comptroller-General either from the Reserve " Treasury, or failing this, from the Paper Currency Reserve, at the current " rates for demand loans on Government paper, rising and falling therewith. " In submitting this suggestion my Directors desire me to state that it is " made with the sole object of ensuring a steady supply of loanable capital " at moderate rates. These loans would yield profit to Government, and " benefit all who are interested in a steady money market, while the Bank " would undertake, without profit to itself, the risk and labour involved. " My Directors would also submit that the Paper Currency Reserve is the " most suitable fund to devote to this purpose, not only because it is large " and steady, and, as experience has shown, would have been found ample " from first to last to have relieved each monetary pressure from " which India has suffered, but because it is to the Paper Currency " that other nations look for assistance at times of monetary strain, and " if effect is given to the proposal now made, the elasticity of the central " banking resources, of which the Indian money markets were deprived by " the transfer of the Paper Currency to Government will be restored." The proposal of the Bank of Bengal was supported by the Bank of Madras‡ but strongly opposed by Mr. Dawkins, in a speech in the Legislative Council on 5th January 1900§ and by the Government of India in a Despatch to the

† Printed on pages 365 to 369 of "Papers relating to the Proposed Establishment of a Central Bank in India (reprinted from the *Gazette of India* and *Supplement*, dated the 12th October 1901)," Simla, 1901.

Secretary of State dated 18th January 1900, from which the following sentences* are taken:—"An alternative measure suggested by the Bank "of Bengal is that, when the Bank rate rises to a height that indicates "undue pressure, loans should be made from the coin reserve of the "Paper Currency Department. This is a suggestion which is open "to fatal objections. Our duty, as we conceive it, is to maintain that "proportion of coin in our total currency reserve which is necessary "for ensuring convertibility. If the proportion were large enough to "admit of loans being made therefrom, then it would be unneces-"sarily large, and the general taxpayer, not any particular section of "the community like the Banks, should benefit by the substitution of "securities for superfluous coin." These objections seem to me very unconvincing. The coin in the Paper Currency Reserve has long been much in excess of what is needed to ensure convertibility, and quite large enough to enable loans to be granted to the Presidency Banks without inconvenience to the Government; if the strength of the Banks is held to be sufficient to justify such loans (a point dealt with below), the coin reserve can be maintained without difficulty at the level required to make them possible; and the loans besides being beneficial in a way in which an addition to the permanent securities held in the Reserve would not be, would probably yield interest to the same, or nearly the same, amount *per annum*.

(2.) The Government deposits bear what might, perhaps, be regarded as a high proportion to the Capital and Reserve and the Cash of the Presidency Banks. Statement D (pages 78-80) summarises the position of the three Presidency Banks as shown in the last weekly statements published for each quarter in 1890, 1891, 1892, 1910, 1911, and 1912. The percentages of Government deposits (*a*) to Capital and Reserve and (*b*) to Cash at the dates mentioned in the last three years were as follows:—

| | Bank of Bengal. | | Bank of Madras. | | Bank of Bombay. | |
|---|---|---|---|---|---|---|
| | Percentage of Government Deposits to— | | Percentage of Government Deposits to— | | Percentage of Government Deposits to— | |
| | Capital and Reserve. | Cash. | Capital and Reserve. | Cash. | Capital and Reserve. | Cash. |
| 1910. | | | | | | |
| March | 51·9 | 37·9 | 54·3 | 44·6 | 91·6 | 56·3 |
| June | 50·3 | 20·5 | 58·5 | 24·7 | 60·9 | 28 |
| September | 51·7 | 23·8 | 53·7 | 20 | 54·6 | 17·5 |
| December | 47 | 34·5 | 67·6 | 39·5 | 74·2 | 34·8 |
| 1911. | | | | | | |
| March | 54·9 | 36·3 | 68·9 | 121·0 | 84·9 | 46·5 |
| June | 54·4 | 26·1 | 71 | 33·9 | 64·9 | 28·8 |
| September | 51·2 | 28·6 | 57·1 | 33·1 | 61·1 | 18·5 |
| December | 60·4 | 28·9 | 53·5 | 35·5 | 52·4 | 23·3 |
| 1912. | | | | | | |
| March | 50·5 | 29 | 93·8 | 57 | 83 | 35·8 |
| June | 52·6 | 26·5 | 52·4 | 32·4 | 75·7 | 30·1 |
| September | 47·5 | 21·4 | 48·3 | 30·8 | 67·9 | 27·4 |
| December | 51·7 | 29·1 | 52·4 | 38·6 | 51 | 31·3 |

In connection with these figures it is necessary to bear in mind that the Banks have not, like most of the great English Banks, uncalled capital. This is a point against a large increase in the amount of Government money deposited with the Banks. On the other hand it should be mentioned that the percentages shown above, high though they are, are generally lower (as will be seen from Statement D of Appendix II., pages 78–80) than those which prevailed in 1890, 1891, and 1892.

*Deposits or Loans with other Banks.*

16. The only other Banks in India which can be compared, in respect of resources and volume of business, with the Presidency Banks are certain

*Ibid.* page 399.

Banks known as the Exchange Banks, which play the chief part in financing India's foreign trade. They are as follows:—Chartered Bank of India Australia and China, Delhi and London Bank, Hong Kong and Shanghai Banking Corporation, National Bank of India, Mercantile Bank of India, Eastern Bank, Comptoir National d'Escompte de Paris, Yokohama Specie Bank, Deutsch-Asiatische Bank, International Banking Corporation, and Russo-Asiatic Bank. The "Statistics of British India" contain the following information regarding their position in 1910:—

| | £ |
|---|---|
| Capital, Reserve and Rest - - | 22,600,000 |
| Deposits in India - - - | 16,200,000 |
| Cash in India - - | 2,860,000 |

17. The general strength of the Exchange Banks may not unreasonably be held to afford considerable support to the view that Government money might safely be entrusted to them. On the other hand:—

(1.) They are all Banks with Head Offices out of India.

(2.) The cash that they hold in India is, as shown above, of very limited amount and represents only a small fraction of their liabilities to private depositors in India.

(3.) There is no reason to believe that the Exchange Banks desire an extension of the practice of placing Government money with Banks. The Government of India recently informed the Secretary of State of a discussion on the subject between the Calcutta representatives of certain Exchange Banks, and the Member of the Governor-General's Council in charge of the Finance Department. The impression formed by the latter was that the suggested change of practice, at any rate if introduced on a large scale, would not be welcomed by the Banks.

18. The other Banks about which statistics are available are nineteen joint stock banks regarding which information up to 1910 is given in the "Statistics of British India." The chief information for the year mentioned is as follows:—

| | £ |
|---|---|
| Capital - - - - | 1,837,000 |
| Reserve and Rest - - | 670,000 |
| Deposits - - - - | 17,100,000 |
| Cash - - - | 1,868,000 |

One of the nineteen Banks has gone into liquidation since 1910.

It seems obvious that not much could be done by way of placing Government balances with these Banks: and I am not aware that any proposal to this effect has been put forward by any responsible body.

*Loans to Firms and Institutions other than Banks.*

19. It will be seen from Lord Salisbury's and Lord George Hamilton's Despatches referred to at the beginning of Section II. that the grant of short term loans at interest and on security, otherwise than to Banks, has long been within the powers of the Government of India. So far as I am aware, such loans have never been granted. The only occasion on which I can trace that the matter has been considered by the Secretary of State and the Government of India, except in the Despatches mentioned, was when, as stated on page 4 of this Memorandum, a question on the subject was asked in the Legislative Council of India, on 18th September 1911.

20. It is obvious that, unless a general practice of granting loans is to be instituted, exceptional loans to particular firms would be open to serious objection. The difficulties in the way of establishing a general practice are briefly summarised as follows in the "Memorandum on India Office Balances" presented to Parliament in 1913 (Command Paper 6619):—"(1) The "loans would probably be secured in most cases on rupee paper: and "if, through the default of borrowers, large quantities had to be sold in any "year, the annual Government loan in India, which is effected by the issue

"of rupee paper, might be injured; (2) In the comparatively small and "sensitive Indian money markets, the rapid calling in of large loans to meet "an emergency might be difficult and dangerous." The first difficulty would be lessened if loans were granted against Bills drawn and accepted by firms of high standing.

## IV.

*India Office Balances.*

21. The management of the balances of the India Office is described in the following extract from the "Memorandum on India Office Balances" just referred to:—

"A considerable part of the disbursements in each year consists of very large payments which are made within very short periods. This is illustrated by the following figures showing the total payments in certain periods in 1911–12:—

"1st to 5th April 1911, 3,624,304*l.* (including 2,084,897*l.* for annuities and interest, and 1,333,333*l.* for Paper Currency Reserve investment); 1st to 5th July 1911, 3,815,710*l.* (including 2,694,367*l.* for annuities and interest, 487,757*l.* for Gold Standard Reserve investment, and 301,800*l.* for discharge of debt); 1st to 5th October, 2,462,000*l.* (including 2,114,605*l.* for annuities and interest); 1st to 5th January 1912, 3,100,857*l.* (including 2,685,769*l.* for annuities and interest, and 75,000*l.* for discharge of debt).

"There are also other large payments, such as those for railway stores, which have to be made at very short notice, but at dates that cannot be exactly foreseen, since they depend on the punctuality or otherwise of contractors.

"The money from which these payments are made is not received just at the moment at which it is needed. The greater part of it is derived from the sales of Council bills and telegraphic transfers which, though in unfavourable years they are liable to cease for considerable periods, take place as a rule every week. Sometimes, but in many years not more than once in the year, large sums are received in a short time as the proceeds of a loan or loans.

"It is thus necessary, as a rule, in preparation for the periods of heavy payments, to accumulate the weekly receipts so as to have them in hand or at call for use when the money is required.

"The whole of the working balance thus required might be allowed to remain at the credit of the Secretary of State at the Bank of England, in which case the revenues of India would receive no interest on it; but the practice followed since 1838 has been to keep a certain part of the balance at the Bank and to lend the remainder at interest.

"The usual method is to lend to certain banks, discount houses, and stockbrokers of high standing, whose names are included in an approved list, now containing 62 names. The list is revised periodically, and applications for admission are carefully considered with reference to the standing and resources of the applicants and the nature of their business. Loans to borrowers on the approved list are granted as a rule for periods from three to five weeks, occasionally for six weeks, so that the whole balance could, if needed, be called in within six weeks.

"The Accountant-General informs the Secretary of State's broker daily of the amount of loans that may be renewed, the amount of new loans that may be placed, or the amount that must be called. He also furnishes the dates for the maturity of the renewals and new loans, so that money may be available to meet requirements. The broker is responsible for obtaining the best possible rate of interest. The amount of a loan is not paid out from the Secretary of State's account at the Bank of England until the security has been lodged at the Bank. The securities which the broker is authorised to accept are as follows:—Exchequer bills and bonds, Treasury bills, Parliamentary stocks and annuities of the United Kingdom, securities on which the interest is guaranteed by Parliament; India stock, debentures, bonds,

and bills; Rupee paper; Guaranteed debenture scrip (fully paid), or bonds of Indian railway companies; London County stock and bills; Metropolitan consolidated stock, Corporation of London debentures, Metropolitan Water Board bills, and "B" stock.* The particulars of each loan transaction are submitted each week to the Finance Committee for approval, and each month to the Auditor of the Accounts of the Secretary of State in Council.*†

"In 1909 it was found that the borrowers on the approved list could not take the full amount of the balances available for loan, and, in order to obtain employment for the funds, the broker was instructed, as a temporary measure, to deposit the excess amount from time to time with leading London banks, usually for periods of between one and three months. The procedure adopted was as follows:—The Accountant-General informed the Secretary of State's broker of the amounts available, and the periods for which he desired to employ them. After consultation with the Chairman of the Finance Committee the broker negotiated with the various banks so as to obtain the best possible rates of interest, which were governed by the rates current in the discount market. He then reported to the Accountant-General, and the particulars of all deposits were submitted to the Finance Committee and the Auditor. In November 1911, it was decided that, so long as it should be found necessary to continue the practice of depositing with banks, the amount on deposit at any one bank should be limited as a general rule to 1,000,000*l.*, and the number of banks at which deposits were made was increased to seven. The balance has now been so much reduced that it is no longer necessary to deposit with banks.

"The rates obtainable on the India Office balances necessarily depend on those current in the London Money Market for short loans and deposits, and these are sometimes higher and sometimes lower than those at which permanent loans, bonds, or bills for a year can be issued. In 1909–10, 1910–11, and 1911–12 the rates paid by the India Office on issues of India stock, bonds, and bills have varied between 3*l.* 12*s.* 11*d.* and 2*l.* 3*s.* 11*d.* per cent. During 1911–12 the average rate of interest received by the India Office on loans to approved borrowers was 2·60 per cent. and on deposits 2·43 per cent. Information to this effect was given in the Viceroy's Legislative Council on 22nd March 1912, and the difference between the rates received and paid respectively attracted the notice of Colonel Yate, M.P., Mr. Stewart, M.P., and Mr. Thorne, M.P., the latter of whom asked (6th November 1912) 'whether there is any truth in the statement that the India 'Office is in the habit of lending money at 2½ per cent. and borrowing it 'back at 3½ per cent.' The explanation is, of course, that the India Office borrows only when it appears necessary to do so in order to meet capital expenditure or (very exceptionally) to make good, temporarily, a deficit due to famine or other causes of a similar exceptional nature, and pays the rate of interest necessitated by market conditions on the loans, mostly in the form of permanent stock, which it issues; whereas it lends for short periods to prevent its balance from lying idle and gets on such loans the best rate that is at the time possible in the condition of the money market, having regard to the fact that the security required is of a very high class and that loans are granted only to firms of very high standing. The alternative to lending for short periods at rates which are sometimes below those paid on the stocks and other securities that it is necessary to issue would be to discontinue entirely or occasionally the practice of lending, which brought in to Indian revenues 2,193,879*l.* in the last 20 years."

## V.

*Amount of total balances (India and England combined).*

22. The amount of closing balance in each year considered by the Government of India to be necessary for safety in India is 12,500,000*l.* The amount required in England in ordinary circumstances is about

* The list of securities has been slightly enlarged since the Memorandum was written. Mr. Badock will give information on these points. (*See* Appendix XI., page 314.)

† The weekly lists are now submitted to the Secretary of State and the Council.

4,000,000*l.*, or somewhat more, as explained in Sections V. and IX. of the "Memorandum on India Office Balances."† The Budget of each year, which (except so far as concerns fixed charges and loan transactions in England) is based on estimates framed by the Government of India, is drawn up as a rule so as to provide for a closing balance not differing greatly from the total of these amounts, *i.e.*, in round figures, 17,000,000*l.*

23. It will be seen from Statement B of Appendix II., (page 75), that there are two recent years in which the total balance provided for in the Budget has appreciably exceeded this amount, viz., 1911–12 (21,221,446*l.*) and 1912–13 (19,589,871*l.*). The explanation of these amounts is as follows :—

1911–12. As shown in footnote 5 to Statement B, the estimated balance on 31st March 1912 included 1,903,000*l.*, being part of the "opium surplus" of 1910–11 specially held towards providing for the discharge of temporary debt after 1911–12. This sum represents a portion of the exceptional receipts from opium in 1910–11 which, being in the nature of a windfall, it was decided to set aside for special purposes. Two-thirds (amounting to 1,903,000*l.*) of the total exceptional receipts was allocated to the discharge of temporary debt.* For the reasons stated in the Secretary of State's Despatch of 23rd December 1910, No. 147, of which I hand in a copy (*see* page 65), it was decided to apply the allocated amount primarily to the discharge of the formidable obligations in the shape of bonds maturing at fixed dates which had to be dealt with after 31st March 1912. Failing this, there would have been a danger that an appreciable part of the limited amount that can be borrowed in each year would have had to be devoted to the discharge of bonds in 1912–13 and subsequent years, instead of being used for capital outlay on railways and irrigation works. The importance of avoiding this will appear from what is said in Section VII. below. For reasons explained on page 10 of the "Memorandum on India Office Balances,"† the Budget for 1911–12 was prepared so as to provide for a somewhat high closing balance even apart from the 1,903,000*l.* mentioned.

* See Financial Statement of the Government of India for 1911–12, paragraphs 6 to 10. (H.C. 155 of 1911, pages 2 and 4.)

1912–13. The comparatively high closing balance provided for in the estimates for 1912–13 was due to the same cause as has been just explained.

24. The actual closing balances at the end of 1908–09, 1909–10, 1910–11, 1911–12, and 1912–13 have considerably exceeded both the standard mentioned at the beginning of this section and the Budget estimates. Part of the excess in 1908–09, 1909–10, 1910–11, and 1911–12 was due to temporary and exceptional causes, explained in the footnotes to Statement B, viz., the presence in the balances of (*a*) the specially hypothecated portion of the "opium surplus" of 1910–11 and a similar receipt realised in 1911–12, and (*b*) receipts on account of loans for capital outlay issued, in view of market conditions, shortly before the commencement of the financial year in which the outlay was to be incurred. Allowance is made for those causes in the final columns of Statement B, headed "Adjusted Actuals" (pages 74–5), from which it will be seen that, apart from the special causes, there was an excess over the Budget Estimate, or the normal standard, or both, in 1909–10, 1910–11, 1911–12, and 1912–13. The factors contributing to these excesses are shown in Statement A (dealing with the transactions of the Government of India as a whole), and Statement E (dealing with Revenue proper and Expenditure chargeable against Revenue) *see* Appendix II., pages 67–73 and page 81. From Statement E it will be observed that the Revenue surpluses (excluding Provincial Adjustments) exceeded the Budget Estimates in 1909–10, 1910–11, 1911–12, and 1912–13 by sums amounting to 20,967,184*l.* in the four years. On the facts shown in Statements A and E the following general remarks may be made :—

(1.) The Budget estimates of revenue represent the best forecast that the Government of India can frame in each March of the probable receipts and expenditure chargeable to revenue under the various heads during the coming financial year. Such forecasts must always be uncertain, since the rainfall from June to September is the deciding factor in the financial results of each year. A very good monsoon may swell the receipts from Railways, Customs, and

† Command Paper 6219.

Excise to a figure for which no prudent Government could estimate ; while a bad monsoon may depress to a very low level the receipts from the sources mentioned and from Land Revenue ; and may also necessitate very large expenditure on famine relief. The uncertainty of Indian estimates of revenue, due to the incalculability of the monsoon, which is perhaps sufficiently illustrated by Statement E, may be further illustrated by the experience of 1907–08 and 1908–09, in which years (*see* Statement A., pages 67–8), the net results of the Revenue transactions (excluding adjustments between the Government of India and Provincial Governments) were worse than the Budget Estimate by 1,046,600*l.* and 4,451,400*l.* respectively in consequence of unfavourable seasons. India came near to having a similar experience in 1911, in which year, as was said by Sir G. Fleetwood Wilson in his speech introducing the Financial Statement for 1912–13, "the half of India was on "the verge of a drought for which we might have had to go back "34 years for a parallel. . . . It was a striking lesson of how "narrow is the line in India between plenty and want." (H.C. 144 of 1912, page 1.)

(2.) An additional element of uncertainty was brought into the Indian estimates for 1910–11, 1911–12, and 1912–13 by the position of the opium trade. In 1908 an agreement was made with the Chinese Government for the gradual reduction of the exports of Indian opium to China and their cessation in 1917. Owing, no doubt, to this agreement, a sensational rise in the price of opium took place at the end of 1909–10 and continued with variations until 1912. But its continuance, and indeed the continued existence of the trade with China, could never be counted on from one season to another. The agreement of 1908 was modified by an agreement of 1911 providing for the termination of the trade in certain eventualities before 1917. In 1912 strong representations in favour of the immediate stoppage of the sales of Indian opium for China were submitted to the Government of India by merchants engaged in the trade. In 1913 measures were taken which, for the time at least, have entirely stopped the trade with China. The financial history of India during the last three years has been coloured and almost dominated by the uncertainty regarding the opium revenue, of which the importance is shown by the following figures (taken from Statement E, page 81) of net opium receipts :—

| | Budget Estimate. | Actual (or Revised Estimate). |
|---|---|---|
| | £ | £ |
| 1910–11 - - | 3,550,100 | 6,271,531 (Actual) |
| 1911–12 - - | 3,093,300 | 5,228,312 (Actual) |
| 1912–13 - - | 2,930,700 | 4,503,500 (Revised Estimates March 1913.) |
| 1913–14 - - | 306,000 | |

(3.) The underspending in several years (as shown in Statement A under "9. Capital Outlay on Railways, Irrigation Works, and Delhi," pages 67–73) of the amounts provided for capital outlay has occurred to a considerable extent in the expenditure by railway companies, over whose action in regard to the placing of contracts for stores the Secretary of State and the Government of India have only a limited control. Measures have been taken with the object of doing what is possible to enable railway companies to spend fully the amounts placed at their disposal in each year for capital purposes.

25. It is shown in Statement B (pages 74–5) that the excess of the closing balances over the normal was held in 1909–10, 1910–11, and 1911–12 mainly in England, and in 1912–13 partly in England but mainly in India. In order to see the causes which led to its being held in England in three of the years, it is necessary to consider the method by which Government balances are transferred from India to England.

## VI.

*Method of transferring Balances from India to England, and India Office Balances.*

26. Practically the whole of the Revenue of India is received in India. Statement A (pages 67–73) shows that about 25 per cent. of the disbursements of the Government of India are made in England. A comparatively small portion of the disbursements in England is met from the proceeds of loans raised in England. Practically the whole of the remainder, consisting mainly of expenditure chargeable against the Revenue of each year, is met by means of remittances from India.

27. These remittances are effected by one or other of the following methods:—

(1.) The sale by the Secretary of State in London of Bills of Exchange (commonly known as Council Bills) and Telegraphic Transfers to be met by the Government of India in India. Details regarding the method of sale will be given by Mr. Newmarch (*see* Appendix VII.). It is perhaps enough to note here that since 1899 the minimum price of bills has been 1*s.* $3\frac{29}{32}$*d.*, and since 1904 there has been in force an undertaking to sell bills without limit of amount at 1*s.* $4\frac{1}{8}$*d.* These two prices are rough and conventional equivalents of the "gold exporting point" and "gold importing point."

Information regarding the manner in which the amount of the sales is regulated is given below.

(2.) Occasionally, when it has seemed improbable that the Secretary of State would be able to obtain by the sale of Bills and Transfers the amount estimated to be required from that source, gold held by the Government of India in India has been consigned to London. As the metallic money held by the Government of India is mostly in the Paper Currency Reserve against notes held in the Government treasuries, the Government of India, when shipping gold to London to be used for the general purposes of the Secretary of State, must usually take the gold from the Paper Currency Reserve and cancel a corresponding amount of notes held in their general treasuries or must transfer from their treasuries a corresponding amount in rupees to the Currency Reserve.

(3.) The conditions in recent years have enabled transfers of gold from the Paper Currency Reserve, when required to supplement the proceeds of Bills and Transfers, to be effected in a more convenient and economical manner than in (2). Part of the Paper Currency Reserve is held in gold in London (taken from the proceeds of the sale of Council Bills*), and the Secretary of State can accordingly withdraw gold from it, when required, against either the cancellation of notes held in the Treasuries of the Government of India or the transfer of rupees from those Treasuries to the Paper Currency Reserve in India.

* *See* Column 5 of Statement F (Appendix II., page 82).

## VII.

*Method by which amount of Sales of Council Bills and Transfers is regulated.*

28. The Indian Currency Committee of 1898–99, over which Sir Henry Fowler presided, said at the end of their Report (paragraph 70): "It is "eminently desirable that, in order to assist towards the speedy establish- "ment of an effective gold standard in India, the Government of India "should restrict the growth of their gold obligations." The particular reason mentioned by the Committee in support of their recommendation has

much less force now, since a gold standard has been effectively established, than it had in 1899; and the extent to which the recommendation can be carried out is limited by the fact that the amount that can be obtained in India towards providing for the capital outlay on railways and irrigation works is in normal circumstances much less than the total outlay generally admitted to be desirable, so that considerable loans must be issued in London. But, having regard to the general advantage of restricting, as far as may be, the growth of a country's external debt and to the practical difficulties attending the issue of large annual loans in London on behalf of the Government of India, the Secretary of State endeavours to obtain from funds provided in India as large a proportion as practicable of the money required for each year for expenditure in England on account of India.

29. It is accordingly the practice to estimate in the Budget of each year for the remittance to England (to be used towards defraying the expenditure of the India Office both on revenue and capital account) of as large an amount as the Government of India estimate that they will be able to devote to meeting Council Bills and Transfers sold by the Secretary of State. The estimate depends, of course, on the resources held by the Government of India in India at the beginning of the year and their forecast of their receipts and their requirements during the year; the requirements being for expenditure on revenue and capital account, for loans to be granted to agriculturists and others, and for the maintenance of a working balance. All these estimates are necessarily framed by the Government of India.

30. The actual sales in a year often differ considerably from the Budget estimate, (*see* Statements A and F of Appendix II., pages 67–73 and page 82). In seven out of the twenty years from 1893-94 to 1912–13, the trade demand for bills and transfers has not been sufficient to enable the full estimated amount to be sold. In the remaining thirteen years the sales have exceeded the estimate because the practice is to sell freely in years of heavy trade demand, subject to the consideration, on which something will be said at the end of this Memorandum, that the sales shall not be on such a scale as to prevent the inflow of gold to India to the extent to which it seems likely that there will be a demand for it on the part of the public. The practice of selling freely is of long standing. The reasons in favour of it are the following, of which the fourth is, in my opinion, by far the most important:—

(1.) The opportunity of purchasing bills and telegraphic transfers in India, as an alternative to consigning gold for the discharge of the trade balance due to India is a great convenience to trade, more especially in times of pressure. This is illustrated by the fact quoted on page 4 of the "Memorandum on India Office Balances (Cd. 6619)," that in 16 days in January—February 1912, telegraphic transfers were sold for 3,500,000*l.*, with the result of transferring this amount immediately from Government treasuries to mercantile hands. I believe that the present practice is generally appreciated by the various mercantile communities in India.

(2.) If the sale of Council Bills were restricted more closely than at present, larger shipments of gold to India to an amount equivalent to the reduction of sales of Council Bills would presumably be made by banks and merchants for discharging the trade balance due to India, unless, as is possible, the balance of Indian trade were adversely affected by the change of system. The greater part of such gold would be tendered by importers to be exchanged by the Government, either direct for rupees or for notes which would be, in due course, cashed in rupees, and would thus find its way into the Paper Currency Reserve in which the greater part of the metallic money belonging to the Government of India is kept. In due course the proportion of rupees to gold in the Paper Currency Reserve would decrease, the stock of rupees would fall to, or below, the limit of safety, and purchases of silver for the coinage of new rupees would be required. Owing to the restriction of the sale of Council Bills, the Secretary of State

would probably not be able, as he usually (though not invariably*) is, under existing conditions, to buy the silver with money received at the India Office in payment for such Bills; and he would be compelled instead to call on the Government of India to ship gold to him, a course obviously uneconomical since it involves the payment by the Government of freight and insurance on the exportation from India of gold on which bankers and merchants have paid similar charges at the time of importation.

Similarly, a close restriction of the sale of Council Bills would probably necessitate shipments of gold by the Government of India, usually but not invariably* avoided under existing conditions, to provide for payments to the Gold Standard Reserve and investments on behalf of the Paper Currency Reserve in England.

* 6,000,000*l.* of gold was sent home by the Government of India between October 1900 and July 1901, 4,261,000*l.* between July 1903 and February 1904, and 6,600,000*l.* between August 1904 and July 1905, mainly to meet payments for silver and to the Gold Standard Reserve. On these and similar occasions India was sometimes exporting and importing gold simultaneously. Since the last mentioned date, the shipments by the Government of India have been:—5,000,000*l.* to establish the English portion of the Paper Currency Reserve, and 2,623,000*l.* light gold coin sent at various dates in 1908–9 and 1912–13.

For the reasons given in Section VIIIC. below I omit consideration of the possibility of further shipments of gold being required to assist the Secretary of State in meeting his disbursements for General Purposes.

3. The larger shipments of gold to India, consequent on a reduction of the sales of Council Bills as explained in (2), would sometimes be on a very considerable scale. In the Table on page 15, the reductions of the sale of Council Bills for General Purposes that would have occurred in the period 1909–10 to 1913–14 under three possible alternative methods of regulating the sales are given at 19,529,519*l.*, 14,518,519*l.*, 13,414,522*l.* respectively. In addition there were sales of 8,690,000*l.* of which the proceeds were appropriated to the Gold Standard Reserve and of 1,333,300*l.* of which the proceeds were used to buy securities for the Paper Currency Reserve* (*see* Statement F of Appendix II., page 82). If the sales for General Purposes had been reduced to the extent shown, and if the sales for the Gold Standard Reserve and Paper Currency Reserve had not taken place, the extra shipments of gold to India, to adjust the balance of trade would presumably have been, under the three alternative methods, 29,552,819*l.*, 24,541,819*l.*, and 23,437,822*l.* respectively, on the assumption that the balance of trade would not have been affected by the change of practice. The shipments would presumably have been made in each year mainly in the busy months when the demand for trade remittance to India is strongest. There can be no reasonable doubt that the temporary or permanent withdrawal, effected at such times, of amounts of gold of this magnitude would injure Indian interests in two ways, viz.:—by hampering the Secretary of State's loan operations in London (*e.g.*, the issue of Indian securities and the renewal of maturing obligations such as the debenture bonds of guaranteed Indian Railway Companies) and by causing a rise in discount rates in London (and probably all over the world) which could not fail to injure India's trade, especially her foreign trade.

(4.) When remittances additional to those estimated for in the Budget are made by the Government of India to the Secretary of State, the proceeds are used, so far as not required for meeting requirements not provided for in the Budget, either towards reducing the amount to be borrowed in England for capital outlay or towards paying off debt. It should be mentioned that, since excess receipts from Bills and Transfers can never be counted on until late in the financial year, when the result of the monsoon and the trade and agricultural position are known, whereas the favourable opportunity

* The further amounts appropriated to the Paper Currency Reserve, as shown in column 5 of Statement F (page 82), were set aside in gold, and thus had the same effect on the London money market as if they had been shipped to India. They are, therefore, omitted from consideration in the present context.

for carrying out loan transactions usually occurs, if at all, early in the financial year, it follows that the proceeds of excess sales of Bills and Transfers cannot ordinarily be used for the avoidance or repayment of debt until the year after that in which the excess sales have taken place. In this respect the practice of the India Office resembles that of the Treasury, which applies surpluses to the reduction of debt in the year after they have been realised.

The extent to which the proceeds of extra sales of Bills and Transfers were used in 1910-11, 1911-12, and 1912-13 to discharge debt and to restrict the amount of new debt created is shown in some figures on page 12 of the "Memorandum on India Office Balances" recently presented to Parliament [Cd. 6619]. The effects in this respect of existing practice are more fully shown in the following summary compiled from Table A, pages 69–73:—

CAPITAL RECEIPTS AND DISBURSEMENTS, 1909–10 TO 1913–14.

*Capital Receipts (Loans issued by Government, Capital paid to the Government by Railway Companies, and Unfunded Debt, i.e., Deposits of Savings Banks and Service Funds).*

| | India. | England. | Total. |
|---|---|---|---|
| | £ | £ | £ |
| 1909–10 (Raised in Advance in 1908–09) | — | 4,475,000 | 4,475,000 |
| ,, (Raised in 1909–10) | 2,571,700 | 5,159,000 | 7,730,700 |
| 1910–11 (Raised in Advance in 1909–10) | — | 6,370,000 | 6,370,000 |
| ,, (Raised in 1910–11) | 2,245,700 | 5,309,100 | 7,554,800 |
| 1911–12 (Raised in Advance in 1910–11) | — | 2,210,000 | 2,210,000 |
| ,, (Raised in 1911–12) | 3,198,400 | 2,855,100 | 6,053,500 |
| 1912–13 | 3,791,400 | 3,495,000 | 7,286,400 |
| 1913–14 (Budget Estimate) | 3,657,500 | 3,000,000 | 6,657,500 |
| Total | 15,464,700 | 32,873,200 | 48,337,900 |
| *Capital Disbursements (Capital Outlay on Railways, Irrigation Works, and Delhi, and Discharge of Debt).* | | | |
| 1909–10 | 3,920,100 | 5,957,100 | 9,877,200 |
| 1910–11 | 3,712,900 | 9,255,900 | 12,968,800 |
| 1911–12 | 4,508,100 | 7,898,900 | 12,407,000 |
| 1912–13 | 4,674,200 | 13,554,900 | 18,229,100 |
| 1913–14 (Budget Estimate) | 6,231,000 | 10,594,400 | 16,825,400 |
| | 23,046,300 | 47,261,200 | 70,307,500 |
| Excess of Capital Payments over Capital Receipts. | 7,581,600 | 14,388,000 | 21,969,600 |

The significant figures in this summary are those in the last line. They serve, indeed, as an epitome of the financial policy consistently pursued by the India Office in the last three years, viz., to take advantage of a period of prosperity and windfalls in India in order (1) to pay off the portion of India's external debt of which the discharge was either obligatory or very desirable, (2) to overcome, as far as possible, the difficulties in the way of the improvement of the Indian railway and irrigation systems caused by the unfavourable position of the market in London for Indian loans.

(5) Money held in England as a working balance or pending use for the reduction of debt or defraying capital expenditure earns interest, the amount so earned from 1909–10 to 1912–13 having been 1,241,173*l.** The deposit of balances in India at interest is rare (*see* page 2); and, although there are arguments of no little force for placing Government money on deposit with the Presidency Banks at certain times of the year more freely than has been customary, such deposits should, I think, for the reasons given on pages 3

| | £ |
|---|---|
| * 1909–10 | 130,070 |
| 1910–11 | 362,880 |
| 1911–12 | 376,053 |
| 1912–13 | 372,170 |
| Total | 1,241,173 |

to 5 above, be made from the Reserve of the Paper Currency Department. If this were done, the Treasury Balances in India would still earn no interest.

## VIII.

*Effect of Regulating Amount of Sales of Council Bills and Transfers otherwise than as under existing Practice.*

31. It seems to me desirable that the Commission should realise fully how the recent and present position of the Secretary of State and the Government of India would have been affected if, during the last few years, there had been in force any method, other than the one described above, of regulating the amount of the sales of Council Bills and applying the proceeds of sales effected in excess of the Budget Estimate. In Supplementary Note I. on "Alternative Methods of Regulating Amount of Sales of Council Bills and Transfers," I compare, as closely as the conditions allow, the actual sales of Council Bills and Transfers for General Purposes from 1909–10* to 1912–13 and the estimated sales for 1913–14, with what they would have been if regulated by any of what seem to be the only possible alternative methods. According to the calculations in that Note the primary effect of applying in 1909–10 to 1913–14 the various possible alternative methods of regulating the sales of Council Bills would have been as shown in the following statement.

* This period is chosen because 1909–10 is the year in which, after a period of adversity, India began to enjoy the financial prosperity which led, among other results, to a considerable increase of the India Office balance over the normal level.

| Method of regulating Sales. | Reduction that would have been caused in the Secretary of State's receipts from the sale of Bills and Transfers. | Portion of reduction that would have been made good by withdrawal of Gold from Paper Currency Reserve in England to pay for Silver in 1912–13. | Amount that would have had to be made good in other ways |
|---|---|---|---|
| 1. | 2. | 3. | 4=2–3. |
| | £ | £ | £ |
| 1. Limiting them to the amount of the "Home Charges," *i.e.*, the net expenditure of the India Office chargeable against Revenue (Section II. of Supplementary Note I.). | 19,529,519 | 7,060,000 | 12,469,519 |
| 2. Basing Budget estimate on forecast of what Secretary of State can sell and Government of India can meet; and limiting sales to amount of this Estimate (Section III.). | 14,518,519 | 7,060,000 | 7,458,519 |
| 3. Limiting them so as not to allow the India Office Balance on 31st March of any year to exceed 4,000,000*l.* (Section IV.). | 13,414,522† | 3,931,200 | 9,483,322† |

† Subject to a possible moderate reduction for the reasons given in the last paragraph of Supplementary Note I., page 25.

32. Regarding the figures in column 3 of the Table above, it is perhaps unnecessary here to do more than explain that, as I shall be able to show when giving evidence regarding the Gold Standard Reserve, the gold in the Paper Currency Reserve has been in the past, and would be in the future, a most valuable resource in a period of bad trade towards enabling the Secretary of State to pay his way and support exchange. Its dissipation in a period of abounding prosperity would be extremely unfortunate.

33. The significance of the figures in column 4 of the Table is much more serious. It is obvious that the only methods by which in any circumstances the amounts shown in that column could have been made good are as follows:—

A. Reduction of India Office Balance.

B. Further withdrawals of gold from the portion of the Paper Currency Reserve held in England.

C. Remittances from India by means other than the sale of Council Bills.
D. Reduction of India Office disbursements.
E. Increase of loans issued by the India Office or by Guaranteed Railway Companies under the authority of the India Office.

34. The facts regarding the practicability or otherwise of these methods are as follows:—

A. *Reduction of India Office Balance.*—Taking the period 1909–10 to 1913–14 as a whole, no such reduction would have been possible, since, as shown in statements A, B, and G, the estimated balance at the close of the period is about 4,000,000*l.*, which is approximately the mimimum compatible with safety. The fact that for a considerable time within the period the balance was higher than was required, and the extent to which this was due to divergencies between estimates prepared by the Government of India and actual results, are discussed separately in Section IX.

B. *Further withdrawals of Gold from the portion of the Paper Currency Reserve held in England.*—The amounts of gold so held during the period 1909–10 to 1913–14 have been as follows:—

| | £ | |
|---|---|---|
| April 1909 to February 1910 | 1,500,000 | |
| March 1910 | 2,500,000 | |
| April 1910 | 3,375,000 | |
| May 1910 | 4,165,000 | |
| June 1910 to January 1911 | 4,245,000 | |
| February 1911 to January 1912 | 5,045,000 | |
| February to October 1912 | 5,700,000 | |
| November 1912 to February 1913 | 7,300,000 | |
| March 1913 | 6,100,000 | (Reduction due to transfer of 1,200,000*l.* to Gold Standard Reserve). |

It is assumed in column 3 of the Table on page 15, if any of the possible alternative methods of regulating sales had been in force, the following amounts would have been taken in gold from the portion of the Paper Currency Reserve held in England:—

| | £ |
|---|---|
| Under first and second alternative methods | 7,060,000 |
| Under third alternative method | 3,931,000 |

It is obvious that, under the first and second methods, there would have been no possibility of taking any further appreciable amount from the same source towards making good the deficiency shown in column 4 of the Table. Under the third method, 3,369,000*l.* could have been so taken between November 1912 and February 1913 or 2,169,000*l.* in March 1913. For the reasons given in the remarks immediately after the Table, this step would have been exceedingly unfortunate.

C. *Remittances from India otherwise than by the sale of Council Bills.*—The only practical alternative method of remittance would have been the shipment of gold to London by the Government of India. for the General Purposes of the Secretary of State. As stated in Section VII. (2), such shipments have been made in the past mainly for specific purposes such as payments for silver or for securities for the Gold Standard Reserve when it was impracticable to effect by the sale of Council Bills the remittances required for such payments. I believe that they would not have been made in the period from 1909–10 to 1913–14 for the General Purposes of the Secretary of State if in that period the sale of Council Bills had been deliberately restricted in the manner assumed in Supplementary Note I. (page 22). My reasons are as follows:—If the sale of Council Bills had been restricted, it would presumably have been done in accordance with the view that some specific limit should be imposed on the amount to be remitted by the Government of India to London in any given period. Unwise as such a policy would have been—since it would have involved locking up in Indian treasuries money that

under the existing practice has been and is being used in London to pay for railway material for India, to reduce India's foreign debt, and for similar purposes—it is just conceivable that it would have been adopted. But it is past belief that the Government that adopted it would have neutralised it by substituting for remittances by the convenient and economical method of selling Council Bills and Transfers, an equivalent amount of remittances by the shipment of gold, a method which, as explained in paragraphs (1) and (3) on pages 12 and 13, would have been adopted, if at all, as part of a system injurious to Indian trade and prejudicial to her interests as a borrower in London, and would also have involved loss (in the shape of payments for freight and insurance, loss of premium on Council Bills, and loss of interest on balances) which I have calculated* at 618,800*l.*, 694,681*l.*, or 1,069,120*l.*, according to the method adopted of restricting the sales of Council Bills. I have not overlooked the fact that—since Council Bills and Transfers, if sold at all, must be sold when the public wishes to buy them, whereas shipments of gold can be made at the time chosen by the Government—the change of method would have, to a considerable extent, enabled the large temporary increase in the India Office balance, dealt with in Section IX. below, to be avoided. But I believe that, for the reasons given in Section IX., that increase has caused no disadvantage of any kind to India. And I am quite sure that (having regard to its very exceptional causes and the extreme improbability of their recurrence) it would have been unwise to make, for the purpose of avoiding it, a drastic change in financial practice involving serious immediate risk and loss to trade and to the Government and the possibility of similar risk and loss hereafter.

* *See* Supplementary Note II. (page 26) on "Cost of Reducing Sales of Council "Bills and substituting Remittances by "Shipments of Gold."

D. *Reduction of India Office Disbursements.*—The expenditure chargeable to revenue consists almost entirely of fixed charges (interest, pensions, leave allowances, War Office charges), and of payments for stores required by the Government of India. It could not be reduced. The capital outlay on railways and irrigation works (the latter of small amount), and the payments for discharge of debt, could have been reduced. The consequences are discussed below.

E. *Increase of Loans.*—It may be assumed that up to a certain point an increase would have been possible. The consequences are discussed below.

35. I believe that, if a shortage of the Secretary of State's receipts from Council Bills to the extent shown in column 4 of the Table above had occurred from 1909–10 to 1913–14 owing to the adoption of closer restrictions on the sales, the course taken to make both ends meet would have been mainly, if not entirely, (*a*) to reduce the Capital Outlay on Railways, (*b*) to to reduce the expenditure on the discharge of temporary debt, (*c*) to increase, or to attempt to increase, to some extent the issue of permanent loans. There can be no doubt that each of these measures would have had serious effects, not merely or mainly of a financial nature in the narrower sense, on the position of India both immediately and in the future. Those effects may be briefly indicated as follows:—

(*a*) The desirability of developing the Indian railway system as rapidly as (or more rapidly than) has been possible in the last few years has been recognised by the Secretary of State and the Government of India. Frequent representations have been made as to the inconvenience and loss caused to producers and merchants by the difficulty of coping with the traffic that offers. Moreover there are many districts, not now served by railways, to which railway communication would bring certainly an increase of prosperity and probably an increase of security against the worst consequences of drought. A reduction of the capital expenditure on railways would have meant at least the postponement of these advantages.

(*b*) A reduction in the amount of temporary debt discharged in the last few years would have reduced India's power of borrowing in London in

future years; and would therefore have involved in the future disadvantages of the same general nature as the reduction of capital outlay would have involved in the immediate present.. It would also have involved one particular disadvantage of very great importance, viz:—the retention of obstacles, which the course actually followed has removed, in the way of pursuing a liberal policy when famine next occurs. At such a time the issue of temporary loans in London is a most valuable resource for meeting the financial difficulties which must arise; and the extent to which it can be used on any particular occasion is largely governed by the amount of temporary debt then in existence.

(*c*) In view of the difficulties that attended the comparatively small issues (32,873,200*l.*) in London of Indian Government and Guaranteed Securities in the period from 1909–10 to 1913–14, there can be no doubt that any appreciable increase of their amount would have altered the position of such securities materially for the worse. This would have increased the difficulties in the way of future issues, and would therefore have led in the future to disadvantages of the kinds described in (*a*) and (*b*).

36. The above remarks set forth what, in my opinion, would have been the consequences of adopting in the period from 1909–10 to 1913–14 a different practice regarding the sales of Council Bills from that which has actually been followed. Assuming the correctness of my view as to the way in which the deficiency in the Secretary of State's resources caused by a reduction of the sales would have been met, it is clear that the economic development of India and its protection against the worst consequences of any future famine would have been seriously prejudiced. At any time hereafter a similar period may occur again, though I hope that the differences between the estimates of the Government of India and actual results will be less than in the period mentioned, so as to avoid certain consequences mentioned in Section IX. below. In the event supposed, I think that the best interests of India will demand that the present practice regarding Council Bills be followed, viz., that (subject to not interfering with a flow of gold to India to the amount likely to be used by the public) they should be sold freely up to the amount that the Government of India can meet after providing adequately for requirements in India. This does not postulate anything as to the desirability or otherwise of the Government of India undertaking to meet in India larger or other requirements than now, *e.g.*, the supply of temporary accommodation for the Indian money markets. I recognise that such action, though disadvantageous if and in so far as it might reduce the capacity of the Government of India for meeting Council Bills, is not to be rejected merely on that account.* But this recognition does not in any way conflict with the view that the available resources of the Government of India, whatever they may from time to time be after providing for requirements in India, should be used fully and freely, as under the present practice, for meeting Council Bills; since otherwise the result must be either that gold will be uselessly and wastefully shipped to and fro between India and the rest of the world or that money will lie idle in Government Treasuries in India while expenditure for Indian purposes in London, which is now always urgently needed and will be so for as long as can be foreseen, will either not be incurred or will be met, if at all, from loans which, under existing practice are avoided.

* My own view is (1) that accommodation would be more advantageously granted to the money market in India from the Paper Currency Reserve (Section III. above), and (2) that, even if granted from the Treasury Balances, it would alter the time, but not reduce the amount, of the sales of Council Bills.

## IX.

*High India Office Balances from* 1910 *to* 1913.

37. Up to this point I have dealt with the period from 1909–10 to 1913–14 as a whole, because this seems to me necessary for considering the effect of the present practice regarding the sale of Council Bills and of any change therein. But it is necessary to refer to a fact which is connected with, but not solely or mainly due to, that practice, viz., the high level at which the India Office balance stood for part of the period. Between February 1910 and September 1912 they stood above 10,000,000*l.* This fact and its connection with the sale of Council Bills have given rise to criticism of a kind illustrated

by the following extracts from an article published by the "Times" on 4th November 1912 from "an Indian Correspondent":—

"Let us see for a moment what this accumulation of Indian money means. It means that many millions sterling of Indian money have been improperly withdrawn from India. They represent sums extracted from the taxpayer in excess of the requirements of the State; capital withdrawn from India for use in London and there used, not in pursuit of Indian interests but for the convenience of joint stock banks trading on inadequate gold reserves. . . . There is therefore no justification for the sale of a single bill by the Secretary of State beyond the actual amount which he needs to discharge his obligations in London. But these excessive sales of bills are a convenience to the exchange banks which have to remit funds to India, and it is often cheaper for them to buy bills than move bullion. They also afford a means of obstructing the natural flow of gold to India, and in this way allay the terrors of those joint stock banks who realise the inadequacy of the London gold reserves, and are not averse to protecting them at the expense of the Indian taxpayer. These, of course, are reasons which cannot be avowed. . . . For long the Chairman of the Finance Committee at Whitehall was Lord Inchcape. He at least had Indian experience, although it was altogether out of date, and large interests in India, though he was never regarded in India as in any sense of the word a representative of Indian interests. Lord Inchcape was succeeded as Chairman by Sir Felix Schuster, who is assisted by Mr. Currie and a civilian who has no direct knowledge of Indian conditions. No one questions for a moment the integrity of these gentlemen, but it is quite obvious that the interests which they most directly represent, and the environment by which they are most likely to be influenced, are not Indian interests. The thought always uppermost in their minds must be the position of the great joint stock banks. Now the distinguishing feature of the English joint stock banks is that they do an enormous business on a ridiculously small cash reserve, and that although great financiers in succession have pointed out the dangers of the situation, the banks have refused to share any portion of the burden of strengthening it. It is very convenient to these banks to have 40 millions of Indian money locked up in London, and to receive large loans from it, with or without security, at low interest. When the Finance Committee turn for advice, it is on the exchange banks that they lean. The interests of these banks are bound up with cheap remittances to India; it is nothing to them if Indian interests suffer, or if the Indian taxpayer pays. Small wonder is it if, ground between the joint stock and the exchange bank, Indian interests have been reduced to powder and she has been compelled to see her resources diverted to the bolstering up of depreciated securities, to financing the City, and frequently to arresting the natural flow of bullion to her shores."

38. This and similar statements seem to rest on the assumption that the Secretary of State has adopted a policy of retaining in London a balance greatly in excess of the amounts needed to meet his requirements. This assumption is incorrect. Its incorrectness is shown by what is said in Section VII., and by several of the Statements that I am submitting, but most conveniently and briefly in Statement G of Appendix II., headed "Summary of India Office Transactions 1909-10 to 1913-14" (page 83). That Statement exhibits the following facts:—

A. The Budget Estimates from 1909–10 to 1913–14 provided for the reduction of balances as follows:—

| | Estimated opening Balance. | Estimated reduction. | Estimated closing Balance. |
|---|---|---|---|
| | £ | £ | £ |
| 1909–10 | 7,697,989 | 4,369,300 | 3,328,689 |
| 1910–11 | 12,739,297 | 7,473,400 | 5,265,897 |
| 1911–12 | 16,055,518 | 7,317,300 | 8,738,218 |
| 1912–13 | 18,320,649 | 11,598,800 | 6,721,849 |
| 1913–14 | 8,372,900 | 4,280,500 | 4,092,400 |

B. In 1909–10, 1910–11, and 1911–12 the balance was increased during the year, instead of being reduced, as estimated; and in 1912–13 the reduction was of less than the estimated amount.

By far the most important cause of the difference between the Budget Estimate and actual results was the excess of the receipts from Council Bills over the estimate framed by the Government of India, at the beginning of each year, of the amount that they could meet. The excesses were as follows:—

| | £ | |
|---|---|---|
| 1909–10 | 1,806,586 | |
| 1910–11 | 8,138,303 | |
| 1911–12 | 9,245,216 | |
| 1912–13 | 10,160,000 | (of this 7,060,000*l.* may be regarded as drawings against silver coined during the year). |

The causes to which they were due are shown in Statements A and E of Appendix II. (pages 67–73 and 81).

C. In 1910–11 a part of the increase in the receipts from Council Bills was used for the discharge of 1,000,000*l.* debt not provided for in the Budget, and similarly in 1911–12 and 1912–13 the issues of loans were reduced by 1,639,897*l.*, and 1,315,000*l.* respectively below the Budget estimates.

A fact that is not exhibited by Statement G. (page 83), is that the reason for not using in a similar way a larger portion of the excess receipts from Council Bills in the year in which they occurred, is that the information that the Government of India were able to supply, as to the probability of their occurrence was on each occasion very incomplete until nearly the end of the year, when either the loan programme of the year was complete, or the time at which it was possible to discharge additional temporary debt had passed by; so that, to a great extent, as explained on page 13, the excess receipts had to be used for the discharge of debt or the reduction of new issues in the year after that in which they accrued. A considerable amount of detailed information on this point is given in the "Memorandum "on India Office Balances," recently presented to Parliament (Cd. 6619), which it is probably not necessary to repeat here: but it may be useful to reproduce from the Memorandum (pp. 11–12) the following sentences:—"In 1910–11 and 1911–12 a large part of the increase of receipts "occurred late in the year. If it had occurred earlier, the effect would have "been that the Secretary of State would have been able to alter somewhat the "time of discharge of temporary debt. The total amount discharged in the "three years (1910–11 to 1912–13), would not have been greater, since by 31st "March 1913 all the temporary debt maturing by that date will have been "paid off, but the final instalment of India Bills would have been paid off in "June 1912 instead of in December."

39. What has been said above is enough to show that the Secretary of State has not adopted a new policy of the kind assumed in the statement quoted at the beginning of this section, and that the high level at which the India Office balance stood in some recent years is due to following established practice in a period in which, for several years in succession, the resources accruing year by year to the Government of India differed by an exceptionally large amount from the Budget Estimate.

40. The question arises whether the possibility of this result is a reason for altering the existing practice regarding the sale of Council Bills. On this question I venture to offer the following remarks:—It is, I think, clear from what is said in Section VII. that a change in the existing practice would be substantially injurious to important Indian interests. If so, it ought not to be changed unless the disadvantages of its continuance are serious. The disadvantages which, as far as I have observed, are imputed to the present practice, are as follows:—

(1.) The suspicion which is said to be aroused in India when the Secretary of State's balances rise as high as they have done in recent years. Regarding this, there are two points to be noticed: (A) The "Times" stated on 20th January 1913, with reference to the series of articles published by it in November 1912, from which the extracts quoted above

are taken, that "Generally, it may be said that careful examination of the "files of the principal Anglo-Indian newspapers for the last two or three "months shows that, while the views of our Anglo-Indian correspondent "have altogether failed to secure widespread support, our contention in "connection with them that the whole problem of Indian financial manage- "ment should be re-examined by an independent and representative "commission is supported in influential quarters, and is not contested by "any important organ of Anglo-Indian opinion." My own reading of the Indian newspapers, including the reports of meetings of Chambers of Commerce, strongly confirms the impression that the views quoted from the "Times" early in this section are not widely held. (B) The divergences between the estimates of the Government of India and the actual results of the various years from 1909-10, which have been the chief cause of the Secretary of State's high balances, have been due to a considerable extent (as shown in Section V.) to one exceptional cause that is not likely to recur.

(2.) It is alleged that the present practice regarding the sale of Council Bills prevents the Government of India from placing money at the disposal of trade by way of deposits with the Presidency Banks or loans. It will be seen from what is said on pages 4 and 5, that, if such action by the Government of India is desirable, it is quite practicable without any change regarding the sale of Council Bills.

(3.) It is also alleged that the present practice regarding Council Bills prevents gold from going to India in amounts sufficient to satisfy the public demand. With reference to this contention I submit the following figures extracted from Statement H (pages 84–5), relating to a period in which the sales of Council Bills were exceptionally heavy :—

| | Imports of Sovereigns. | Absorption of Sovereigns by the public during the year. | Sovereigns held at end of year in Government Treasuries and Reserves at disposal of public in exchange for Rupees. |
|---|---|---|---|
| | (1) | (2) | (3) |
| 1909–10 | 9,241,000 | 2,874,000 | 6,425,000 |
| 1910–11 | 8,540,000 | 8,103,000 | 6,484,000 |
| 1911–12 | 18,342,000 | 8,884,000 | 15,828,000 |
| 1912–13 | 17,795,000 | 11,101,000 | 19,963,000 |

It will be noticed that in each year the importation of sovereigns (Col. 1) exceeded the absorption by the public (Col. 2) and that at the end of each year there has been a substantial amount held by the Government at the disposal of the public to be exchanged for rupees. The amount so held on 31st March 1913 was higher than at the corresponding date in any previous year, and was sufficient to supply the demands of the public for $2\frac{1}{2}$ years at the average rate of annual absorption shown in column 2. It will also be observed from Statement H that the absorption of sovereigns during the twelve years to which the Statement refers amounted to 60,066,000*l*. In view of these figures it seems scarcely necessary to discuss further the contention under consideration.

## Supplementary Note I.

### Alternative methods of Regulating amount of Sales of Council Bills and Transfers.

41. In the foregoing Memorandum the existing method of regulating the amount of Council Bills and Transfers sold in each year is explained. I believe that this method is far more conducive to the interests of India than any that could be substituted. But it is obviously desirable to consider what are the possible alternative methods and what would be the effect of the adoption of each of them.

The objects of the present Supplementary Note are to set forth the alternative methods that appear either to be advocated by the critics of the existing methods whose views I have seen, or, whether so advocated or not, to be possible subjects of reasonable discussion, and to submit the results of calculations as to the effect that their adoption from 1909–10 would have had in reducing the amount available from the proceeds of Bills for the general purposes of the Secretary of State.

I have disregarded in the calculations on which this note is based the sales of Council Bills of which the proceeds have been used, not for General Purposes (including purchase of silver), but for additions to the Gold Standard Reserve and the Paper Currency Reserve in England, since the disadvantages of not selling these Bills, though very considerable, would have been of a different nature from those (described on pages 19 and 20 of the Memorandum) attending the reduction of the amount sold for General Purposes.

#### I.

*To fix Budget Estimate of Council Bills at Amount of Home Charges and Actual Sales at Amount of Budget Estimate.*

42. I gather from the perusal of controversial writings that one alternative method of regulating the sale of Council Bills that is occasionally contemplated as possible, is that the Budget of each year should provide for the sale of bills and transfers of the estimated amount of the Home Charges, *i.e.*, the net expenditure of the India Office chargeable against revenue, and that the actual sales of each year should be of this amount.

43. This is an impossible scheme for the following reasons:—

(*a*) A normal Indian Budget provides for revenue to be received, almost entirely in India, of an amount approximately equivalent to the expenditure in India and England chargeable against revenue; so that, if the Government of India had only revenue transactions to consider, it would be able in a normal year to provide for remittance to England the equivalent of the total net expenditure in England chargeable to revenue. As a matter of fact there are also very important capital transactions partly in England and partly in India; and in some years the estimate of capital outlay in India exceeds by a considerable amount the estimated resources that can be provided in India towards meeting it. In such years the estimated amounts that can be provided by the Government of India for meeting Council Bills may fall short considerably of the estimated net expenditure chargeable to revenue in England, so that provision must be made in the Budget for the deficiency in England to be made good from the proceeds of loans or by reduction of the India Office balance. This is illustrated by the following figures which compare

the estimated sales of Council Bills for General Purposes with the estimated Home Charges from 1909–10 to 1913–14 :—

*Budget Estimates of Home Charges and Council Bills.*

| —— | 1909-10. | 1910-11. | 1911-12. | 1912-13. | 1913-14. |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Home Charges (net) - | 18,717,000 | 19,054,500 | 19,105,400 | 19,298,400 | 18,786,100 |
| Receipts from Council Bills | 16,200,000 | 15,500,000 | 15,825,000 | 15,500,000 | 21,650,000 |

(*b*) There are years in which owing to unfavourable trade conditions, reducing the trade demand for Council Bills, the Secretary of State cannot sell bills up to the amount of the Home Charges, even if he has budgetted to do so and if the Government of India have the funds that would be required to meet the bills if sold.

## II.

*To limit actual Sales of Council Bills to amount of Home Charges.*

44. A possible variant of this scheme, which is at any rate practicable, is that in each year the remittances from India, without being limited to the amount of the Budget estimate, should not be allowed to exceed the amount of the Home Charges.

If this had been in force from 1909–10 the Sales of Council Bills for General Purposes from that year to 1913–14 inclusive would have compared as follows with the actual amounts :—

| —— | (1) Actual Sales for General Purposes. | (2) If limited to Home Charges. | (3) Difference. (Col. 1—Col. 2.) |
|---|---|---|---|
| | £ | £ | £ |
| 1909–10 - - - | 18,006,586 | 18,006,586 | — |
| 1910–11 - - - - | 23,638,303 | 18,606,000 | 5,032,303 |
| 1911–12 - - - | 25,070,216 | 18,866,000 | 6,204,216 |
| 1912–13 - - - - | 25,660,000 | 19,438,000 | 6,222,000 |
| 1913–14 (Budget Estimate) - | 21,650,000 | 19,579,000 | 2,071,000 |
| | 114,025,105 | 94,495,586 | 19,529,519 |

These figures show that, if the suggested alternative had been in force during the period to which the figures refer, the Secretary of State's receipts for General Purposes would have fallen short by 19,529,519*l*., which would have had to be made good from some source other than Council Bills. But it may be assumed that, if the sales of Council Bills had been limited in the manner suggested, the 7,060,000*l*. paid for silver in 1912–13, which was obtained from the sale of Bills, would have been made from the sterling portion of the Paper Currency Reserve. This reduces to 12,469,519*l*. the deficiency to be made good from other sources.

## III.

*To base Budget Estimate on forecast of what Secretary of State can sell, and Government of India can meet, and to limit sales to amount of this Estimate.*

45. A third alternative is that the Budget estimate of Council Bills should be drawn up in each year so as to provide for the sale of as many Bills as the Government of India estimates to be able to meet and the Secretary of State estimates to be able to sell, and that this estimate should not be exceeded.

46. The following figures have been prepared to show the amount that the Government of India would have been able to estimate to meet in each year from 1909–10, on the assumption that the amount for each year would have consisted of what was actually estimated under the existing practice *plus* the extra sum that the Government of India would have had in hand at the beginning of the year owing to the reduction in the manner suggested of the bills drawn on them during the preceding year or years, subject, however, to the further assumption which can be made with complete confidence, viz., that both the Secretary of State and the Government of India would have thought it necessary to limit the Budget Estimate of the sales of bills in each year to the amount for which there is likely to be a demand in a prosperous year. To neglect such a precaution when framing the financial arrangements for the coming year would be to incur the risk of complete financial confusion owing to a shortage of the sale of bills as compared with the estimate, and this is a risk which could not have been run without the greatest imprudence. I have taken the limit in question at 22,000,000*l.* which exceeds the highest Budget estimate of Council Bills ever adopted.

47. On the assumptions mentioned, the sales of Bills for General Purposes that would have taken place from 1909–10 to 1913–14 compare as follows with the actual sales in 1909–10 to 1912–13 and the Budget for 1913–14 :—

| | (1.) Actual Sales for General Purposes. | (2.) Sales that would have taken place on conditions and assumptions used in this Section. | (3.) Difference (Col. 1 – Col. 2.) |
|---|---|---|---|
| | £ | £ | £ |
| 1909–10 - - - | 18,006,586 | 16,200,000 | 1,806,586 |
| 1910–11 - - - - | 23,638,303 | 17,306,586 | 6,331,717 |
| 1911–12 - - - | 25,070,216 | 22,000,000 | 3,070,216 |
| 1912–13 - - - - | 25,660,000 | 22,000,000 | 3,660,000 |
| 1913–14 (Budget estimate) - - | 21,650,000 | 22,000,000 | *–350,000* |
| | 114,025,105 | 99,506,586 | 14,518,519 |

Thus the shortage to be made good from sources other than the sale of Council Bills would have been 14,518,519*l.*; which would have been reduced to 7,458,519*l.*, if the silver bought in 1912–13 had been paid for by the transfer of gold from the Paper Currency Reserve.

## IV.

### *To regulate sales so as to prevent closing balance of India Office from exceeding* 4,000,000*l.*

48. The last of the possible alternative methods of regulating the sale of bills appears to be that the Secretary of State should so regulate his financial arrangements that the closing balance of each year should be a fixed sum, say, 4,000,000*l.* If this method were adopted there would obviously be no possibility of drawing sums from the balances in the course of the year to make good a deficiency in the receipts from Council Bills and loans, so that it would be necessary in each Budget (*a*) to avoid placing the estimate of Council Bills higher than the amount for which a demand can be expected in a fairly prosperous year; (*b*) to estimate for the issue of loans to the full amount of the excess of total disbursements over the estimated receipts from Council Bills and miscellaneous sources. Moreover, in view of the low level at which the cash balance would ordinarily stand, and of the danger of postponing the issue of loans estimated to be required for the service of the year beyond the favourable early months of the year, the prudent (and presumably the ordinary) practice would be to issue in the first half of the year the full estimated amount of loans. If late in the year it became apparent that expenditure would be below the estimate, the sales of Council Bills would be reduced below the Budget Estimate so as to

prevent the closing balance from exceeding 4,000,000*l.* On this basis and the assumptions—

(1) that the estimate of Council Bills would not in any year have been higher than 22,000,000*l.*; and

(2) that the silver bought in 1912–13, so far as it could not have been paid for from the proceeds of the sale of Bills or from the receipts, estimated for in the Budget under other heads, would have been paid for with gold withdrawn from the Paper Currency Reserve,

I have calculated—

(1) That the sales of Council Bills for General Purposes under the suggested system from 1909–10 to 1913–14 would have compared as follows with those actually made (or estimated to be made in 1913–14) under the existing system :—

| —— | (1) Actual Sales. | (2) If regulated so as to prevent closing India Office balance from exceeding 4,000,000*l.* | (3) Difference, (Col. 1 – Col. 2). |
|---|---|---|---|
| | £ | £ | £ |
| 1909–10 | 18,006,586 | 15,126,800 | 2,879,786 |
| 1910–11 | 23,638,303 | 17,228,786 | 6,409,517 |
| 1911–12 | 25,070,216 | 20,594,997 | 4,475,219 |
| 1912–13 | 25,660,000 | 25,660,000 | * |
| 1913–14 (Budget Estimate) | 21,650,000 | 22,000,000 | *– 350,000* |
| | 114,025,105 | 100,610,583 | 13,414,522 |

(2) That, under the conditions supposed, 3,931,200*l.* would have been withdrawn in gold from the Paper Currency Reserve in England towards paying for silver in 1912–13, and would thereby have served towards making good the shortage shown in the table just given.

49. It is possible that the conditions mentioned at the beginning of this section would have been departed from to the extent that some of the loans that would have been included in the Budgets of the various years under this scheme would not have been issued, and that the equivalent of the receipts anticipated from them would have been obtained late in the year by additional sales of Council Bills, which might then have been effected without raising the closing balance of any year above 4,000,000*l.* So far as this took place, it would have reduced the deficiency of the sales of Council Bills under the suggested system, as compared with those that have actually been made under the existing system below the amount given in the third column of the Table above. But, having regard to the smallness of the balance that would ordinarily have been at the disposal of the India Office under the system now being discussed, and to the manifold uncertainties that have attended the financial position in the period from 1909–10, the abandonment or postponement of loans estimated to be necessary for the needs of each year would have involved great risk and would presumably not have occurred to any large extent. Any allowance for the possibility of such abandonment must clearly be conjectural; and any reasonable conjecture must place the figure low.

## SUPPLEMENTARY NOTE II.

### Cost of reducing Sales of Council Bills and substituting remittances by Shipment of Gold.

### A.

50. The object of the present Note is to calculate as closely as conditions allow the loss to the Government that would have been incurred if, in place of the practice that has been, and is being, followed in respect of the sales of Council Bills and Transfers from 1909–10 to 1913–14, the following course had been adopted:—

1. Reduction of the sales of Council Bills and Transfers to the extent shown in the various sections of Supplementary Note I.
2. Making good the consequent deficiency in the Secretary of State's resources partly (to the extent mentioned in that Note) by the "unearmarking" of gold (*i.e.*, its transfer from the portion of the Paper Currency Reserve held in England), and partly by the shipment of gold by the Government of India to the Secretary of State when necessary to prevent his closing balance in any year from falling below (approximately) 4,000,000*l.*

### B.

51. It is necessary to consider—

Loss directly due to the substitution of one method of remittance for another.

Loss of interest due to the location in India of part of the total balance that was actually held in England.

### C.

*Loss directly due to the substitution of one method of remittance for another.*

52. This arises under two heads:—

(1.) When sovereigns are sent to India to be exchanged for rupees, the rate at which the exchange is effected is 1*s.* 4*d.* per rupee. The average rate at which Council Bills and Transfers were sold from 1909–10 to 1912–13 was 1*s.* 4·061*d.* (approximately 1*s.* $4\frac{1}{16}$*d.*). Thus the substitution of the former method of remittance for the latter in respect of a portion of the total remittances would have caused in the first instance a loss to the Government of the premium of ·061*d.* per rupee (or ·38125 per cent.), unless the change had brought about a compensating increase in the premium on the remainder of the remittances, which would still have been effected by means of Council Bills. There is no sufficient reason for assuming that this would have been the case since, as shown in the Note which Mr. Newmarch is submitting,* the rate of 1*s.* 4·061*d.* (1*s.* $4\frac{1}{16}$*d.*) is one at which remittances of gold compete effectively with remittances by Council Bills.

(2.) The shipment of gold by the Government of India to the Secretary of State would have involved a loss of approximately ·5 per cent. for cost of freight and insurance.

* *See* Appendix VII. (page 220).

53. Applying these percentages to the amounts shown in the several sections of the Supplementary Note on "Alternative Methods, &c.," the loss directly due to the substitution of one method of remittance for another may be calculated as follows :—

*Table I.*

| | Loss of premium at ·38125 per cent. on Amount of Reduction of Sales. | | Freight, and Insurance, at ·5 per cent. on Shipments of Gold to make good Reduction of Sales less portion assumed in Supplementary Note I. to be made good by "unearmarking" of Gold. | | Total Loss, Col. 2 + Col. 4. |
|---|---|---|---|---|---|
| | Amount of Reduction. | Loss. | Amount of Shipments. | Loss. | |
| | (1) | (2) | (3) | (4) | (5) |
| | £ | £ | £ | £ | £ |
| Section II. of Supplementary Note | 19,529,519 | 74,456 | 12,469,519 | 62,347 | 136,803 |
| Section III. „ „ - | 14,518,519 | 55,352 | 7,458,519 | 37,292 | 92,644 |
| Section IV. „ „ - | 13,414,522 | 51,142 | 9,483,322 | 47,416 | 98,558 |

## D.

*Loss of Interest in England due to the Location of part of the Balance in India.*

54. The average India Office Balance (calculated from the monthly closing balances) in the years 1909–10, 1910–11, 1911–12, 1912–13, and 1913–14 (Budget estimate), the approximate rate of interest earned, and the total interest earned, are shown in the following Table. The figures in colums 1, 2, 3, and 5 for the first four years are actuals; the rate of interest (Col. 5) for those years is obtained by distributing the total interest earned over the average balance shown in column 1; the average balance for 1913–14 is taken at the mean between the estimated opening and closing balances, the portion not earning interest in 1913–14 at the equivalent (approximately) of the corresponding figure for the preceding years, and the rate of interest in 1913–14 at the average rate of the preceding four years :—

*Table II.*

| | Average Balance. | | Total. | Rate of Interest per Cent. | Interest Earned. |
|---|---|---|---|---|---|
| | Earning Interest.* | Not Earning Interest.* | | | |
| | 1 | 2 | 3 | 4 | 5 |
| | £ | £ | £ | | £ |
| 1909–10 - - - | 7,478,650 | 1,103,690 | 8,582,340 | 1·739 | 130,070 |
| 1910–11 - - | 13,146,482 | 1,128,708 | 14,275,190 | 2·760 | 362,880 |
| 1911–12 - - - | 15,638,357 | 1,095,618 | 16,733,975 | 2·405† | 376,053 |
| 1912–13 - - - | 10,952,913 | 1,033,877 | 11,986,790 | 3·398 | 372,170 |
| 1913–14 (Budget Estimate) | 5,338,314 | 1,100,000 | 6,438,314 | 2·575 | 137,462 |
| | | | | | 1,378,635 |

* The amounts in column 1 are somewhat greater, and those in column 2 correspondingly less, than they would be if the averages were based on the figures of each day instead of on those for the last day of each month. This is due to the fact that on the evening of the last day of some months, the balance held at the Bank of England, and therefore not earning interest, must be exceptionally high, to provide for large payments to be made on the following day.

† This rate differs slightly from the "average approximate" rates given on 22nd March 1912 in reply to a question in the Viceroy's Legislative Council on 22nd March 1912 (*see* page 13 of "Memorandum on India Office Balances"—Command Paper 6619 of 1913), viz. :—2·60 per cent. on loans to approved borrowers and 2·43 per cent. on deposits. These rates were given before the end of the financial year to which they refer.

55. The reduction of the Sales of Council Bills to the extent shown in the various sections of Supplementary Note I. on "Alternative Methods, &c.," would have reduced the closing balances in the various years, if no special measures had been taken to replenish them, such as transfer of gold from Paper Currency Reserve in England or shipment of gold from India to the following amounts :—

*Table III.*

| — | Section II. of Supplementary Note I. on "Alternative Methods, &c." | Section III. | Section IV. |
|---|---|---|---|
| | £ | £ | |
| 1909–10 | 12,799,091 | 10,992,505 | No figures can be given, as the conditions in Section IV. imply that the closing balance of each year would have been kept at 4,000,000*l.*, if necessary, by loans. |
| 1910–11 | 11,664,687 | 8,558,688 | |
| 1911–12 | 7,153,494 | 7,181,494 | |
| 1912–13 | *—8,674,314** | *—6,084,314** | |
| 1913–14 | *—15,437,096* | *—10,426,096* | |

* These figures are based on the actual closing balance of 1912–13 which differs by 411,305*l.* from the Revised Estimate given in Statements A, B, and G. of Appendix II (pages 67–75, and page 83).

56. If, in the years when replenishment would have been necessary, it had been effected by the "unearmarking" of gold (to the extent assumed in the various sections of the Supplementary Note on "Alternative Methods, &c."), and the shipment of gold from India, to the total amount shown in Table I. above, and if, as assumed in Section A above, these operations had been timed so as to bring the closing balances in the years in which they were effected to (approximately) 4,000,000*l.*, the closing balances of the various years would have been as follows :—

*Table IV.*

| — | Section II. | Section III. | Section IV. |
|---|---|---|---|
| | £ | £ | £ |
| 1909–10 | 12,799,091 | 10,992,515 | 4,000,000 |
| 1910–11 | 11,664,687 | 8,558,688 | 4,000,000 |
| 1911–12 | 7,153,494 | 7,181,494 | 4,000,000 |
| 1912–13 | 4,000,000 | 4,000,000 | 4,000,000 |
| 1913–14 | 4,092,423 | 4,092,423 | 4,000,000 |

57. Taking the opening balance of 1909–10 at the figure at which it actually stood (7,983,898*l.*) and assuming that the average balance of each year would have been the mean between the opening and closing balances, and that, as in Table II., approximately 1,100,000*l.* would not have been earning interest, then the interest that would have been earned, at the rates that were actually realised in the first four years, and at a rate for 1913–14 based on the average rate for the four preceding years, would have been as follows :—

*Table V.*

| — | Average Balance earning Interest. | | | Rate of Interest earned. | Amount of Interest earned. | | |
|---|---|---|---|---|---|---|---|
| | Section II. of Supplementary Note on "Alternative Methods, &c." | Section III. | Section IV. | | Section II. | Section III. | Section IV. |
| | £ | £ | £ | p.c. | £ | £ | £ |
| 1909–10 - | 9,291,500 | 8,388,250 | 4,891,950 | 1·739 | 161,579 | 145,872 | 85,071 |
| 1910–11 - | 11,131,900 | 8,675,600 | 2,900,000 | 2·760 | 307,240 | 239,447 | 80,040 |
| 1911–12 - | 8,309,100 | 6,770,050 | 2,900,000 | 2·405 | 199,834 | 162,820 | 69,745 |
| 1912–13 - | 4,476,750 | 4,490,700 | 2,900,000 | 3·398 | 152,120 | 152,594 | 98,542 |
| 1913–14 - | 2,946,200 | 2,946,200 | 2,900,000 | 2·575 | 75,835 | 75,865 | 74,675 |
| | | Total - | - | - | 896,638 | 776,598 | 408,073 |

58. Thus, in addition to the loss directly due to the substitution of one method of remittance for another, there would have been a loss of interest as follows :—

| | £ | £ | £ |
|---|---|---|---|
| Section II. - | 1,378,635 | – 896,638 | = 481,997 |
| „ III. - | 1,378,635 | – 776,598 | = 602,037 |
| „ IV. - | 1,378,635 | – 408,073 | = 970,562 |

## E.

59. The gross loss due to the causes dealt with in C. and D. above would have been as follows :—

*Table VI.*

| — | Section II. of Supplementary Note on "Alternative Methods, &c." | Section III. | Section IV. |
|---|---|---|---|
| | £ | £ | £ |
| Loss due to substitution of one form of remittance for another. | 136,803 | 92,644 | 98,558 |
| Loss of interest on Balance in England - | 481,997 | 602,037 | 970,562 |
| Total - - | 618,800 | 694,681 | 1,069,120 |

## F.

60. It may perhaps be considered that the loss shown should be reduced by allowing for interest that would have been earned on loans that would have been granted from the portion of the general balance held in India. Apart from the fact that this policy has not been actually introduced, I think that no such allowance should be made because I am of opinion, for the reasons stated in my main Memorandum, that by far the best source for loans in India is not the general Treasury balance of the Government of India, but the Reserve of the Paper Currency Department in India: and it is probable that any amount that could be advantageously lent in India could be provided from this source. In case, however, it be thought necessary to assume that loans would have been granted in India from the additional amounts that

would have been held in the Treasury balances in India under the conditions supposed in this note, I submit the following calculation regarding these amounts:—

*Table VII.*

| | Addition consequent on reduction of Payments to meet Council Bills. | | | Deduct amount of Gold that would have been shipped or "unearmarked" (the latter involving reduction of Indian Treasury Balances). | | | Net addition to Indian Treasury Balance. | | |
|---|---|---|---|---|---|---|---|---|---|
| | Section II. | Section III. | Section IV. | Section II. | Section III. | Section IV. | Section II. | Section III. | Section IV. |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 31 Mar. 1910 | — | 1,806,586 | 2,879,786 | — | — | — | — | 1,806,586 | 2,879,786 |
| „ 1911 | 5,032,303 | 8,138,303 | 9,289,303 | — | — | — | 5,032,303 | 8,138,303 | 9,289,303 |
| „ 1912 | 11,236,519 | 11,208,519 | 13,764,522 | — | — | 3,114,303 | 11,236,519 | 11,208,519 | 10,650,219 |
| „ 1913 | 17,458,519 | 14,868,519 | 13,764,522 | 12,674,314 | 10,084,314 | 7,264,522 | 4,784,205 | 4,784,205 | 6,500,000 |
| „ 1914 | 19,529,519 | 14,518,519 | 13,414,522 | 19,529,519 | 14,518,519 | 13,414,522 | — | — | — |

61. In calculating the interest that might have been earned in India on these additions to the Indian balances, it is necessary to bear in mind (1) that the amount which could be advantageously and safely lent in India is limited; and (2) that owing to the well-known seasonal character of Indian trade, the loans would probably have been sought during only a part of each year. The following figures show approximately the total interest that would have been earned in India if (subject to a maximum of 3,000,000*l.* in any one year) the net additions to the Indian balance shown above had been lent, in the years in which they are supposed to have accrued, at 6 per cent. per annum for six months:—

| | £ |
|---|---|
| Scheme in Section II. of Supplementary Note on "Alternative Methods, &c." | 270,000 |
| Scheme in Section III. | 324,000 |
| Scheme in Section IV. | 356,000 |

## APPENDIX II.

CORRESPONDENCE AND OTHER OFFICIAL PAPERS TO ACCOMPANY THE MEMORANDUM AND SUPPLEMENTARY NOTES ON THE LOCATION AND MANAGEMENT OF GENERAL BALANCES OF SECRETARY OF STATE, AND SALE OF COUNCIL BILLS AND TRANSFERS, HANDED IN BY MR. L. ABRAHAMS, C.B., ASSISTANT UNDER SECRETARY OF STATE FOR INDIA.

No. 256, dated 30th June 1874.

From—The Government of India.
To—H. M.'s Secretary of State for India.

We have postponed consideration of the Bill for the regulation of the Presidency Banks and of the agreements depending upon it, pending receipt of the decision of Your Lordship in Council on the question of the agency of the Bank of Bengal in Bombay, in regard to which we forwarded with our despatch of the 9th January, No. 17, a letter from the Directors of the Bank of Bengal.

2. The strain to which our finances were exposed early this year has given us the advantage of an experience which we had not when the terms of the new agreements were last under our consideration.

3. We have been much impressed with the consideration that the effect of the existing agreements with the banks which compels us to place all the cash balances belonging to Government in their hands leads to consequences which may be very inconvenient, if not worse, both to Government and to trade.

4. The only use of these balances to Government is that they may be made available the moment the public service requires them.

5. We have had no difficulty in regard to the balances in the hands of the Banks of Bengal and Madras; the Bank of Bombay, however, protested against meeting drafts upon it, and on the urgent representations of the Governor of Bombay we were obliged, on the 29th January, to allow a month's time before drawing.

6. The Bank of Bombay, accustomed to high Government balances, and relying on the maintenance of those balances had so employed them that they were practically locked up; for had we insisted on withdrawing them more suddenly we should have done so in the face of a warning that we should produce a commercial crisis, and therefore for a time the Government balances at Bombay were useless for the purposes of the Government.

7. We think it doubtful, moreover, whether it is any real advantage to trade that large Government balances should be kept in the hands of the banks. It appears to us that an element of uncertainty is thereby introduced into the money market not unlikely to aggravate commercial difficulties at a time of tightness.

8. An amount of capital which is large relatively to the whole capital engaged in trade at the Presidency towns is supplied by Government; but Government, for reasons quite unconnected with trade, may have to withdraw these balances suddenly.

In this case a sudden demand ensues for capital to replace that which is thus removed; the rate of discount rises, not from any commercial reason, but from the accident of State necessities, and if this should occur at a time of commercial pressure it would precipitate a crisis which otherwise might not occur. If Government did not supply this capital to the trade it would be found by private individuals through banks or in some other way.

9. Had the Government funds in the hands of the banks in January last been limited to a fair working balance, and had we had a reserve in our own hands, we think it may be assumed that the market rise in the rates of discount which has occurred would not have taken place, and our business would have been transacted without disturbing trade operations.

10. The resources of a large money market are not open to us; and we do not think it would be safe to trust to being able to raise funds readily and immediately in India. The amount (350,000*l.*) that we wanted in January out of our balance of about a million with the Bank of Bombay, and the demand for which brought down the remonstrance that we should place in jeopardy the trade of Bombay, cannot be considered as large. Calcutta may have larger resources, but we cannot suppose that even here the supplies immediately available are really considerable.

11. We are of opinion that a Government subject to the contingencies to which the Government of India is exposed ought not to be without a reserve, and that this reserve should be in its own hands.

12. This object might be attained by dissolving our connection with the banks and re-establishing our treasuries. We are unwilling to take this course unless forced to do so: the banks are useful institutions, and the Bank of Bengal especially has upon several occasions been of great assistance to the Government.

13. We should prefer, as an alternative plan, to make a change in the agreements with the banks, so that instead of giving them the right to hold all the Government balances the stipulation may be confined to engaging to pay them interest when our balances are reduced below certain amounts.

If it be necessary to go further than this we might stipulate that the banks should have the use of our balances up to certain limits, after which we should be unfettered as to their employment. The exact sums to be fixed in connection with the proposed stipulations would be settled in communication with the banks.

14. The amount to be kept in reserve need not, in our opinion, be very large, as the main difficulty is one only of time. The sense of security which we should derive from the possession of a reserve of two millions immediately available for any emergency would, in our judgment, amply repay the charge for interest on that amount.

No. 225, dated 6th May 1875.

From—The Secretary of State for India (Lord Salisbury).
To—The Government of India.

I have considered in Council the following communications from your Government—

Financial letter dated 9th January 1874, No. 17,
Telegram dated 9th January 1874,
" " 2nd February 1874,
Financial letter dated 6th February 1874, No. 41,
" " 6th February 1874, No. 42,
" " 13th March 1874, No. 77,
" " 24th April 1874, No. 142,
" " 30th June 1874, No. 256,

relative to proposed modifications of the agreements with the Presidency Banks for the conduct of the Government business, and the withdrawal of the Agency of the Bank of Bengal at Bombay.

2. I have also had before me letters from Mr. J. B. Norton, dated the 9th March 1874, and from Messrs. Marshman, C.S.I., and E. H. Lushington, on behalf of the shareholders of the Bank of Bengal, dated the 17th of the same month, on the subject of the continuance of the Bank of Bengal's Agency at Bombay. Copies of those letters are forwarded herewith for your information.

3. Your letters Nos. 17, 41, 42, 77, and 142, as well as the telegrams of the 9th January and 7th February 1874, refer to the proceedings of the Agency of the Bank of Bengal at Bombay, and of the New Bank of Bombay.

4. In your letter of the 30th June you state that you "have been much impressed "with the consideration that the effect of the existing agreements with the Banks "which compels us to place all the cash balances belonging to Government in their "hands, leads to consequences which may be very inconvenient, if not worse, both to "Government and to trade," and you are of opinion that, having regard to the contingencies to which the Government of India is exposed you ought not to be without a reserve of cash in your own hands. That object, you remark, might be attained by dissolving your connection with the Banks, and re-establishing Government Treasuries; but you "are unwilling to take this course unless forced to do so; the "Banks are useful institutions, and the Bank of Bengal especially has, upon several "occasions, been of great assistance to the Government."

5. Under the present agreements with the Presidency Banks, in each of which Government is a shareholder, and is now represented on the Boards of those of Bengal and Madras as it was formerly also on that of Bombay by Directors of its own choosing, Government undertakes, though without penalty for failure, to keep average balances as follows:—

| | £ |
|---|---|
| In the Bank of Bengal | 700,000 |
| " " Madras | 250,000 |
| " " Bombay | 400,000 |

And at the head-quarters of the Banks Government is bound to pay interest whenever its balances fall below the following minima:—

| | £ |
|---|---|
| With the Bank of Bengal | 450,000 |
| " " Madras | 200,000 |
| " " Bombay | 250,000 |

6. Direct payments are also made to the Banks, viz.:—

| | Bengal. Rs. | Madras. Rs. | Bombay. Rs. |
|---|---|---|---|
| 1. For General Treasury duties at Head Office (annually). | 43,606 | 12,000 | 12,240 |

2. For Savings Banks (all alike), three-eighths per cent. on the aggregate balance of deposits at the close of the preceding year, and 8 annas a year upon each active account.

| | | | |
|---|---|---|---|
| 3. Packing and despatching treasure (all alike) | - | - | Actual charges. |
| | Rs. | Rs. | Rs. |
| 4. For public debt, for each crore on the register | 3,500 | 4,000 | 4,000 |

Government, moreover, undertakes that the payments that would formerly have been made into the treasuries at Calcutta Madras, and Bombay, and local treasuries, shall be made into the Presidency Banks and the branches thereof, where established with the sanction of Government, and you* state that "the entire public balances, however "large they may be, at the Branch Banks, are "at the disposal of the Banks which receive no "other remuneration for doing the Government "business at the branches. The Government is not bound to keep up any minimum

* Financial letter from the Government of India, dated the 9th June 1873, No. 231.

" balance at any branch, but it undertakes to instruct its officers not only not to overdraw " their account at the branches, but always to provide a margin at their credit; and, " also, that the balance at any Branch Bank is not to be reduced below what it would be " necessary to keep in the Government Treasury at the same place, were there no agree- " ment with the Bank." On the other hand, the Banks are at present restricted both as to the nature and the field of their business.

7. It has been decided that the Government shall cease to hold shares in these Banks, and shall have no part in the Direction. But you propose that the law shall still impose on the Banks certain special restrictions. They are still, as now, to be prohibited from certain hazardous branches of business, and their field of operations is, as at present, to be subject to the consent of the State. On the other hand, you would so far alter the present agreements, that " instead of giving the Banks the right " to hold all the Government balances, the stipulation may be confined to engaging to " pay them interest whenever our balances are reduced below certain amounts."

8. The connection which has thus existed between the State and the Banks has from time to time been the cause of very serious embarrassment. It has produced a general impression that the State is responsible both for the good conduct and and prosperity of the Banks, and when any of them has been involved in difficulty or danger, there has been a disposition to claim, as of right, assistance, or even indemnity, from the Government of India.

9. The controversy which has arisen between the Bank of Bombay and the Bank of Bengal in a great degree arises out of this misconception. It has been thought wise so far to limit the natural competition between the two Banks as to prohibit either from setting up branches beyond the limits of its own Presidency. This policy whatever its merit, has been adopted on public grounds. The public balances have formed so large a part of their resources that these might, it was believed, have been endangered, if they had been made the instruments for maintaining an unrestricted competition. But no private rights to Government protection were created by this provision; and it affords no foundation for the claim that the Bank of Bengal shall be compelled, against its own strenuous remonstrances, to employ the Bank of Bombay exclusively as its agent at Bombay.

10. The expectations unfortunately engendered by the close connection existing between the State and the Presidency Banks were the cause of an inconvenience, almost amounting to a public danger, which was experienced by Your Excellency's Government in January of last year, and which is much dwelt upon in the despatches before me. The strain upon your finances arising out of the famine compelled you to draw at that time for 35 lakhs upon the Bank of Bombay. Accustomed to high Government balances, and relying on the maintenance of those balances, the Bank had so employed them that they were practically locked up. You were met by an urgent telegram from the Governor stating that, if you drew anything from the Bank at that time, you would cause a general commercial panic; and other remonstrances equally pressing were addressed to you from the Bank of Bombay. The result was, that you were compelled, at a moment of singular pressure, to abandon the proposed draft. Your Excellency has correctly stated that " the Government of India has never undertaken " to keep balances with the Presidency Banks for the use of persons engaged in trade " and it would be highly inconvenient to admit that any responsibility attaches to the " Government in this respect, or that the Government is called upon to regulate the " amount that it will leave in the hands of any of its bankers with reference to any " other considerations than the interests of the public service." But from the tone of the appeals addressed to you, it is evident that this conception of Your Excellency's duties had in fact arisen in the public mind, and was doubtless due to the relation which had existed between the State and the Presidency Banks.

11. But the tendency to found extravagant expectations upon this connection is more remarkably exemplified in the claims which have been, and up to this day are still urged upon the Government by the shareholders of the former Bank of Bombay. In that Bank the Government held shares, and, as a shareholder, contributed three Directors to the Board of Management. The Bank was regulated by a legislative charter of incorporation, similar in kind to that which Your Excellency is preparing to grant to its successor. The Government Directors were not always capable, and the charter, whilst it imposed some restrictions, omitted others to which the other Banks had been subjected. These two considerations were sufficient, when the Bank in 1866 was ruined by mismanagement, to persuade the shareholders that they had a genuine claim against the Government for compensation. Further reflection has not diminished its value in their eyes, for up to the present year they have not ceased to urge it. That Government should, in consequence of its relations with the Banks, have become liable, in the eyes of an intelligent body of men, to such a demand, is a circumstance not to be overlooked in considering the form which those relations in the future are to assume.

12. It was inevitable from the nature of the connexion between the State and the Banks, that difficulties of this character should occur; and it is probable that under

existing arrangements they may occur not infrequently. The State possesses power greater than any individual, and it is liable to pressure from which individuals are free. A shareholder who can without absurdity, be asked to indemnify other shareholders for the errors into which the Directors who represent them all have fallen; a customer who contracts to deposit all his balances at the Bank, and who can be reproached as acting unreasonably if he desires to use them when money is scarce—is evidently more valuable to a Bank than ordinary shareholders and customers; and if pressure be necessary to enforce these requests it will probably be applied. In the same way, an external power which can be called upon to prohibit a competitor from encroaching on the markets enjoyed by his rival, possesses a jurisdiction which is too useful not to be frequently invoked. The Banks cannot in any degree be blamed for profiting by the relations into which the State has voluntarily entered. They press naturally for such concessions, and the Government cannot refuse them without incurring odium, or grant them without great embarrassment.

13. The time has come when Her Majesty's Government must consider how far these relations shall continue. Originally they were probably devised to provide banking facilities for the commerce of the country, which it would have been otherwise unable to procure. The development of trade has lessened the cogency of this reason; and I agree with Your Excellency in the doubts you express as to the real value of artificial facilities which arise from large Government balances with the Banks. Capital supplied by Government, and not representing the savings of the community, is a resource on whose permanence no reliance can be placed, and which therefore tends to lead traders into dangerous commitments. It gives ease for a time, and produces a prosperity which is at the mercy of an accident. A political exigency suddenly withdraws the adventitious resource, and the commerce which trusted to it finds itself pledged beyond what its own resources can make good.

14. In your despatch of the 30th June, Your Excellency has intimated a desire to keep a reserve of two millions in bullion in your hands; and you express the opinion that "the sense of security which you would derive from the possession of such a "reserve immediately available for any emergency, would in your judgment amply "repay the charge for interest on that amount." I recognise the serious danger to which the want of such a reserve exposes you in emergencies. But the emergencies happen so rarely, that I should reluctantly consent to sacrifice interest to the extent of 80,000*l.* a year permanently to meet them.

15. The object you have in view will be sufficiently attained by freeing yourself from all exceptional liability to the Banks. Your proposal that a minimum balance should be fixed, all deduction from which should carry interest against you, appears to me to be reasonable. Without such a protection, express or implied, it would be difficult for the Banks to transact business with so large a customer. You would naturally take care to fix a minimum which should not impose any burden upon the State beyond what is necessary for their fair remuneration. Any such arrangement should be supplemented by a corresponding provision, that if the balances which you think fit to leave with the Bank exceed a fixed maximum, and the Bank should desire to retain them, they should bear interest in your favour. But these agreements would not give to your relation with the Banks any exceptional or even unusual character.

16. No further engagement on your side will be necessary. The understanding that all revenue is to pass through the Banks wherever branches exist will not be renewed. You will take care to make it clearly understood that the amount of your deposits is discretionary, and that if it is convenient to you at any time to retain in the Treasury the proceeds of the revenue, the Banks possess no right in respect to it that will entitle them to complain.

17. In ordinary times you will probably not wish to retain money in the Treasury. If any apprehension of difficulty is felt, or if the course taken by any Bank indisposes you to trust it with the custody of large deposits, it will be at your discretion to hold back the growing produce of the revenue in the Treasury, instead of paying it over to the Bank. At a very brief notice you will thus be able to accumulate, in your own coffers, the two millions which you judge to be necessary for your security in times of pressure, even if a large portion of it cannot be provided by drawing upon your balances. Any sum so reserved you will deal with according to the exigencies of the time. It will be competent for your Financial Department either to retain it in the Treasury or to lend it for short terms under suitable conditions as to interest and security.

18. The engagement which the Banks on their side should be asked to undertake will be only those to which they would probably by preference submit. If you incorporate them by special legislation, you may properly insert into the Act the restrictions which do not injure their commerce but increase the confidence they enjoy. They should be required to abstain from the hazardous business of foreign exchanges, and from lending on any but the most approved securities. A

weekly statement, such as that which is issued by the Bank of England, together with a weekly classification of the securities on which they have advanced, should be supplied by a responsible officer, who should be bound to a true statement under penalty. You will at the same time require such confidential returns as may be necessary to place Your Excellency in full possession of all the requisite information with respect to the distribution of the resources of the Banks and the character of their operations. If the information furnished by these returns is sufficiently detailed, it will not be necessary to reserve a power of inspection, which might impose upon you in the public view an undue responsibility for the management of the Banks, and would, in other respects, place the Government in a false position towards them.

19. These restrictions are no more than you may rightly exact as a condition of the position of advantage in which the Banks are placed by receiving Acts of Incorporation, and by their connection with your Government.

20. The charter of incorporation will, as heretofore, assign to each Bank the limits within which it may lawfully establish branches. This provision is earnestly valued by the smaller Banks, and is not resisted by the Bank of Bengal. It is open to many and serious objections upon general grounds; but it is agreeable to a practice which has long prevailed, and to abandon it would be to make a superfluous addition to the important changes which the exigency of the case makes it necessary at this juncture to adopt. For these reasons the condition may be reimposed.

21. The demand of the Directors of the Bank of Bombay, that the Bank of Bengal shall be compelled to employ them as agents, stands upon a different footing. The condition has not been imposed before, and it is strenuously resisted by the Bank of Bengal. The acquiescence of that Bank could not be obtained except at the price of some special privilege in fiscal matters, which in effect could only be provided at the cost of the Indian tax-payers. No public advantage could be shown in favour of such an arrangement, and the experience of last year furnishes a new argument against it of much cogency. I should, therefore, not approve of any provisions being inserted in the Bill to disturb the existing state of things in that respect.

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**RESOLUTION—By the Government of India (Financial Department), No. 317, dated 19th January 1876.**

RESOLUTION.—The Governor-General in Council is about to conclude new contracts for the transaction of public business by the Presidency Banks of Bengal, Madras and Bombay, under which the Government will only maintain with the Banks such balances as may be considered convenient with reference to the requirements of the public service.

2. Arrangements will simultaneously be made for the constitution of a separate reserve treasury under the custody of the Comptroller-General, in which will be concentrated all funds not required for the immediate purposes of the Administration.

3. The Governor-General in Council reminds each Accountant-General, and Deputy Accountant-General in independent charge, that it is a principal part of his duty to devise all the means which his experience may suggest to reduce and economise the balances in the treasuries in account with him, without of course resorting to measures which must result in useless expense, as for instance bringing away from any treasury funds which must shortly be supplied to it again.

4. Each Accountant-General, and Deputy Accountant-General in independent charge, should make it his constant care to concentrate all the spare resources of the treasuries in account with him in some convenient receiving treasury or treasuries, and should keep the Comptroller-General always informed of the amount which is thus ready at his disposal for the general service of the Empire.

5. Enquiry has, heretofore, several times been made as to the lowest balances which will suffice for the conduct of the Administration in each province in each month of the year; but as circumstances change, it is not necessary to advert particularly to the results of these enquiries.

6. Each Accountant-General, and Deputy Accountant-General in independent charge, is now desired to report afresh the minimum aggregate amount, apart, in the case of Madras and Bombay, from the balances in the headquarter offices of the Presidency Banks, which he considers absolutely necessary to retain in all the treasuries in account with him at the beginning of each month in the year. He will compare the amounts thus reported with the actual minimum aggregate amounts held in these treasuries in each month during the last twelve years, and explain fully his reasons for estimating more than such actual aggregate minimum. The Government of India does not wish to interfere with the distribution of the provincial balances in District Treasuries.

7. In making his report, the Accountant-General, or Deputy Accountant-General in independent charge, will set forth any practice of the Administration, whether

Imperial or Provincial, which in his judgment makes a larger working balance necessary than would otherwise be necessary.

8. The report should be submitted to the local Government, duplicate being sent to the Government of India, in the Financial Department. The local Government should address any remarks that it has to make on the report to the Government of India, in the Financial Department, as soon as possible.

9. The Comptroller-General will make, direct to the Government of India, in this Department, a similar report in respect to all treasuries in direct account with him, excepting the Government balance at the head-quarter office of the Presidency Bank of Bengal.

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No. 2088, dated 30th December 1879.

From—R. B. Chapman, Esq., C.S.I., Secretary to the Govt. of India, DEPARTMENT OF FINANCE.

To—The Comptroller-General.

In reply to your letter No. 1775, dated the 6th December 1879, I am directed to state that the Governor-General in Council sanctions the establishment of Branch Reserve Treasuries at Madras and Bombay in connection with the Currency Offices, on the understanding that the arrangement will involve no extra expense to the State.

These Branch Reserve Treasuries will be entirely at your disposal, and no payments will be made therefrom without your permission.

The balances in these Branch Reserve Treasuries may be kept in currency notes of large denomination, and the amount of notes held in the Reserve Treasury and its branches may be distinguished from those in actual circulation in the manner proposed by you.

The Security Bonds of the Treasurers of the Currency Offices should be revised, so as to include these Reserve Treasuries. The cost of revising the bonds will be paid by Government.

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RESOLUTION—By the Government of India, Department of Finance and Commerce, No. 949, dated 21st February 1889. (Gazette of India, 23rd February 1889.)

READ the undermentioned correspondence with the Bombay Chamber of Commerce regarding the policy of Government in dealing with its cash balances:—

Letter from the Chamber of Commerce, dated 9th August 1888.
Letter to the Chamber of Commerce, No. 4972, dated 8th September 1888.
Letter from the Chamber of Commerce, dated 4th October 1888.
Letter to the Chamber of Commerce, No. 234, dated 12th January 1889, and enclosure.

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ORDER.—Ordered, that this correspondence be published in the *Gazette of India* for general information.

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Dated 9th August 1888.

From—The Secretary to the Chamber of Commerce, Bombay.

To—The Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE.

I am directed by the Committee of the Chamber to address you with regard to the recent heavy withdrawals of Government funds from the Bank of Bombay. Without, as the Committee understand, any preliminary notice the Government withdrew from the Bank the sum of about one-and-a-half crores of rupees during the week ending 28th ultimo, thereby creating an unexpected pressure in the money market and an advance in rates of discount of about two per cent. per annum. My Committee believe that Government must have had good and sufficient grounds for their action in this matter, and they have no doubt, when the reasons are explained, that the withdrawals were necessitated by the exigencies of the public service. They are of opinion, however, that steps should be taken to avoid unexpected demands of this character, which might, under other circumstances, lead to serious results in business, and, possibly during the busy season, to financial complications. These withdrawals, moreover, attract attention to a subject which has more than once been under the consideration of this Chamber in the shape of the large unemployed balances in the Government Treasuries throughout the country. During the past year these balances have aggregated in round figures from 10½ to 13¾ crores of rupees; and my Committee think it worthy of the most careful consideration of the Finance Minister whether this enormous amount of money could not be made available for the purposes of trade, and thereby indirectly for the benefit of the country at large.

2. In England, by the mode of finance adopted by the Government, the balances at the disposal of the Treasury are made available for trade purposes through the

Bank of England, and it seems to my Committee that a considerable portion of this country's funds might equally be utilized if arrangements were made to that end. No doubt a large floating balance is required for public purposes, but if the managements of the three Presidency Banks were consulted they would probably be able to indicate some means by which the trade and commerce of the country could have the benefit, during a portion of the year at least, of the at present unemployed Treasury balances.

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No. 4972, dated 8th September 1888.

From—The Offg. Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE.

To—The Secretary to the Chamber of Commerce, Bombay.

I am directed to acknowledge receipt of your letter of 9th August regarding the withdrawal of money in July from the Bank of Bombay to the Reserve Treasury.

2. It is observed that your letter raises the general question of the extent to which the Government balances should be placed in deposit at the Presidency Banks. A definite policy in this matter was laid down at the time when the Presidency Banks Act of 1876 was under discussion, and nothing has since occurred to disturb the foundations on which it rests. The following extracts from documents of that date will explain it to the Chamber of Commerce.

*Extract paragraphs* 7, 8, *and* 9, *from a Despatch from the Government of India* (*in the Financial Department*), *to Her Majesty's Secretary of State for India.—No.* 256, *dated* 30*th June* 1874.

*Paragraph* 7.—We think it doubtful, moreover, whether it is any real advantage to trade that large Government balances should be kept in the hands of the Banks. It appears to us that an element of uncertainty is thereby introduced into the money market not unlikely to aggravate commercial difficulties at a time of tightness.

8. An amount of capital, which is large relatively to the whole capital engaged in trade at the Presidency towns, is supplied by Government; but Government for reasons quite unconnected with trade, may have to withdraw these balances suddenly.

In this case a sudden demand ensues for capital to replace that which is thus removed; the rate of discount rises, not from any commercial reason, but from the accident of State necessities; and, if this should occur at a time of commercial pressure, it would precipitate a crisis which otherwise might not occur. If Government did not supply this capital to the trade, it would be found by private individuals through banks or in some other way.

9. Had the Government funds in the hands of the Banks in January last been limited to a fair working balance, and had we had a reserve in our own hands, we think it may be assumed that the market rise in the rates of discount which has occurred would not have taken place, and our business would have been transacted without disturbing trade operations.

*Extract paragraph* 13 *from a Despatch from the Secretary of State for India, to the Government of India.—No.* 225, *dated* 6*th May* 1875.

*Paragraph* 13.—The time has come when her Majesty's Government must consider how far these relations shall continue. Originally they were probably devised to provide banking facilities for the commerce of the country, which it would have been otherwise unable to procure. The development of trade has lessened the cogency of this reason, and I agree with Your Excellency in the doubts you express as to the real value of artificial facilities which arise from large Government balances with the Banks. Capital supplied by Government, and not representing the savings of the community, is a resource on whose permanence no reliance can be placed, and which therefore tends to lead traders into dangerous commitments. It gives ease for a time, and produces a prosperity which is at the mercy of an accident. A political exigency suddenly withdraws the adventitious resource, and the commerce which trusted to it finds itself pledged beyond what its own resources can make good.

*Extract from the* HON'BLE SIR W. MUIR'S *Speech in the Legislative Council, dated the* 14*th December* 1875.

Further, it was urged that the necessity for connection with the State no longer existed. It might have been expedient; or even indispensable, in the poverty of mercantile resources at the beginning of the century, to support the credit of the Bank by Government capital and direction. But this had long ceased to be the case, and there were now abundant materials, altogether apart from the State, for banking upon a secure and independent basis.

*Extract from the* HON'BLE MR. BULLEN SMITH'S *Speech in the Legislative Council, dated the* 14*th December* 1875.

Although he (Mr. Bullen Smith) conceived there might be difference of opinion as to whether or not there did exist at the present time a real necessity for the severance of that connection which had so long and with such great advantage subsisted between the Government and these Banks, yet he was for his part somewhat careless to enquire as to the precise need for that severance. The Banks had derived great advantage from that connection in times past, but he thought the moral support which the Government lent to the Banks, besides its material support, was now no longer required. He thought these institutions were now in a position to go on alone, which they were not at the time of their original establishment, and that support which was in the early days almost necessary was now no longer required.

3. The policy thus laid down the Government of India cannot consider to be open to discussion. The Government cannot in its own interests revert to the system

by which its use of its own balances was dependent upon the policy of the Directors of the Presidency Banks, based as it necessarily was upon commercial necessities, and not upon anticipations of State demands. Nor is it, in the opinion of the Governor-General in Council, advisable, in the interests of the commercial public, that the state of the money market should be subject to the violent fluctuations and the entire dependence upon Government operations, which would be the result of placing the entire Government balances at the disposal of the Presidency Banks.

4. The figures of your letter, I am to remark, give a somewhat erroneous impression of the amount of money which could under any circumstances be placed at the disposal of trade. A reference to paragraph 156 of the last Financial statement will shew that the 10½ crores (the real figure was under 10,30 lakhs) afforded very little margin over the amount necessary to carry on the Treasury business of the country. In fact, at the time when that balance was recorded, the balance in the reserve treasuries amounted to 83 lakhs only, and this is therefore the only addition which, on the policy proposed by the Chamber, could at that time have been made to the amounts, stated in the margin, which under existing arrangements were available for the purposes of trade.

| *Head Offices and Branches.* | Rs. |
|---|---|
| Bank of Bengal - - - | 1,72,54,000 |
| ,, Bombay - - - | 71,34,000 |
| ,, Madras - - - - | 39,80,000 |
| | 2,83,68,000 |

5. The example of the Home Government, which is quoted in your letter, is for more than one reason entirely inapplicable to India. In the first place, the Government balances in England are not liable to the great fluctuations which arise in this country from the fact that the revenue is most unequally distributed over the year; and, in the second place, the Government balances in England are an item that disappears in the general account of available resources, while in India they amount to considerably more than half of the available cash of the Presidency Banks. When the Government in England obtains assistance from the money market, the transaction is a mere ripple on the surface of the commercial world; when the Government of India makes a similar appeal, the transaction is one which, as your letter shews, dominates the whole condition of the money market, notwithstanding the fact that six weeks' notice of the demand has been given.

6. With these observations on the question of general policy, I am now to refer to the transactions of last July. The arrangements of Government at the time of raising a loan are devised for the express purpose of enabling the demand to fall easily upon the money market. Ample notice is given, and the instalments are spread over two or three months. The interests of Government are the same as the interests of those who finance its loans, and the Government has always been careful that no pressure on its part shall affect the facility with which the money is raised. The Chamber are doubtless aware that there is a stipulated maximum fixed for the Government balances, which in the case of the Bank of Bombay is 50 lakhs; but the Government balances at the Banks are necessarily swollen by the loan operations, and the practice of Government has been to let the Banks retain as much in excess of the stipulated maximum as they desired, provided they paid interest upon it. The fairness of this condition is obvious; the money is wanted for advances on the new paper, which money the allottees in their turn pay into the Government account. The Banks cannot reasonably claim—neither have they on previous occasions claimed—that the Government should, while it is itself paying interests to the allottees, lend the Banks the same money without interest, in order that they may use it to make advances at interest to the allottees; and it is obvious that so long as the Government offers to advance its money at the Bank's minimum rate, it cannot be charged with any action tending to raise that minimum rate.

7. The Chamber of Commerce seem to have been wrongly informed as to the facts of the present case, for the Government on this, as on former occasions, have acted throughout in concert with the Presidency Bank. From July 6th to 10th the Government balances were increased by payments on account of the loans from 77 to 229 lakhs. Next day—that is, on 11th July—the Secretary of the Bank wrote to the Accountant-General with the object of retaining this balance for a time, as, according to ordinary practice, he expected to be called upon to reduce it. The Accountant-General replied by stating that he proposed to make considerable withdrawals, but that, if the Bank desired to retain an excess over 70 lakhs, it could do so by paying interest on the amount according to previous practice. Finally, at the desire of the Bank, which did not wish to hold money at interest, another arrangement was substituted, which provided for the withdrawal of the money during the three weeks from 14th July to 4th August. The Accountant-General accepted the proposal which the Bank put forward in this respect, making in it one modification only—namely, that he took on 14th July 140 lakhs instead of one crore; but as he at the same time placed 20 lakhs at the Bank's call at the Reserve Treasury, he practically withdrew only 20 lakhs more than the Bank offered.

8. It will, no doubt, be admitted that these transactions are somewhat inaccurately described in the Chamber's letter, which says that—

> Without any preliminary notice, the Government withdrew from the Bank the sum of about 1½ crores of rupees during the week ending 28th ultimo, thereby creating an unexpected pressure, and an advance in the rate of discount of about 2 per cent.

9. The circumstances were certainly very unusual under which over two crores of the loan was paid up in Bombay by the date of the first instalment, and it is not surprising that a temporary difficulty should have arisen from them. For these circumstances the Government is in no way responsible, but the task of getting out of the difficult position thus created fell upon the Accountant-General and the Bank of Bombay. With the action of the latter the Government is not at present concerned, but the mere facts that the Bank's minimum rate never stood in danger of being raised; that the Government balance from the 7th till the end of the month never went below 75 lakhs, though the fixed maximum is 50 only; and that the Bank did not find it necessary to borrow the money offered it by the Accountant-General; are evidence of the carefulness with which the Accountant-General resumed for the Government the control over its own balances. The fact that the Chamber assign to the withdrawal of the 1½ crores, a date which is a fortnight later than that of its actual occurrence would seem to show that it did not make itself manifest by any sudden stringency in the money market.

10. The reference in your letter to an advance of about 2 per cent. in the rate of discount is not understood. The Bank's minimum rate has been steady at 4 per cent. from the commencement of July till now. If the Chamber's letter implies that large advances were being made at 2 per cent., while the Directors of the Bank of Bombay maintained the official rate at 4 per cent., then there is ample reason to think that the withdrawal of the Government balances was demanded just as much in the interest of the steadiness of the market as in the interest of Government; and the Government would have been justly chargeable with fostering an incipient speculation if it had departed from its prescribed methods, and left in the Bank's coffers the large sums of money, which had been collected during the month of preparation, by those who intended to subscribe to its loan. The incident, in short, is an example of the danger pointed out in the above-quoted Despatch of the Secretary of State, and furnishes an additional proof of the wisdom of the policy which has been described in the opening paragraphs of this letter.

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Dated 4th October 1888.

From—The Secretary to the Chamber of Commerce, Bombay.

To—The Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE.

I am directed by the Committee of the Chamber to acknowledge the receipt of your letter No. 4972 of 8th ultimo, and in so doing to express their thanks for the detailed explanations therein given of the circumstances attending the withdrawals of the Government balances from the Bank of Bombay in July last.

2. Being dependent for their information regarding the fluctuations in the treasury balances on the weekly published statements of the Bank of Bombay, the Committee perceive that they were in error in putting the withdrawals at 150 lakhs instead of 140 lakhs, and, furthermore, that the action of the Accountant-General in making these withdrawals had not been adopted, as the outside mercantile community generally at the time believed, without some preliminary intimation to the responsible officials of the Bank. My Committee respectfully submit, however, that any misapprehension they may have inadvertently expressed on these points does not materially affect the main issue respecting which they took the liberty of addressing Government. The broad fact remains that by the withdrawals in question, and notwithstanding the precautions which Government were apparently desirous of exercising, the money market was suddenly and unexpectedly transformed from a position of exceptional quietude and ease to one of extreme stringency, and the market rate of discount was practically advanced in one day, without the preliminary indications which generally accompany such movements, from about 2 to 4 per cent. per annum. Happily, as I have already had the honour to state, this unforeseen advance in the value of money was unattended as it might easily under other circumstances have been by any general disaster, but serious loss was occasioned to banking institutions and private individuals for which it is now manifest there was no occasion, and it will be in the interests of Government and tend to inspire confidence in investors if provision be made to avoid the recurrence of a similar state of affairs in connection with future loans.

3. The fact that the Bank of Bombay minimum rate remained unchanged throughout at 4 per cent. is relied upon as showing that no such stringency as my Committee alleged really existed, but this view is based on the misconception—plainly stated in the tenth paragraph of your letter—that no money market exists apart from

the Bank, and to this misconception, very possibly, the conditions which led to the exceptional pressure may be entirely attributable.

4. Had Government been aware, as was the case, that money in the open market had only been worth from one-and-a-half to two per cent. per annum for a month previous to the issue of the loan they would have perceived that the privilege of being allowed to pay up instalments to the loan in advance, and thereby secure 4 per cent. interest, was bound to attract unusually rapid payment, and, in view of this contingency, would doubtless have instructed the Accountant-General to extend his withdrawals over a longer period.

5. The circumstances were no doubt unusual, but with a due appreciation of the true financial situation the ultimate results were certainly not improbable, and the Committee of the Chamber do not see that in making the concession which the Secretary of the Bank of Bombay at the time solicited, the Accountant-General would have been doing more than the occasion demanded. It is unquestionably to the interest of Government that subscriptions to their loans should be attended by as little risk as possible, and if by spreading the withdrawals of the unexpectedly large sum at his disposal over three weeks or a month, the Accountant-General had it in his power to obviate any adverse contingency it would have been sound policy to have conceded the arrangement. Government not having contemplated so rapid a payment of the loan could not have been in emergent want of the money, and any charge which the Bank might have been prepared to pay would have been so much profit, as it would not otherwise have been employed at interest. The transaction no doubt would, as indicated in your letter, have trenched upon the strict letter of the prescribed relations between Government and the Presidency Bank, but the position was exceptional and might fairly, therefore, claim exceptional treatment. More my Committee would not have contended for in connection with the transaction now past, and they merely ask that similar conditions may meet with adequate consideration in the future.

6. As to the general question of the advisability or otherwise of utilising some portion of the unemployed treasury balances for trade purposes, the Committee regret that for reasons adduced the Government of India do not consider their present policy as open to discussion. I am directed to say, however, that they trust they may not be considered wanting in due respect for the decision of Her Majesty's Secretary of State for India if they point out that the financial conditions prevailing in 1874 when the basis of the Government relations with the Presidency Banks was laid down, are widely different from those at present existing, and that the opinions, expressed about the same period by the Honourable Sir W. Muir and the Honourable Mr. Bullen Smith, while sound and entitled to all consideration at the time, have now lost much of their force. Trade and industrial enterprises have undergone enormous expansion in the interval, necessitating and attracting banking facilities in proportion, so that while at certain seasons of the year there is an active demand for capital which would enable Government to obtain a remunerative return on their unemployed funds, their placing same at the disposal of a market so greatly developed in resources and extent would not be attended by the same risks as were rightly held to be involved thirteen or fourteen years ago. Nor in so doing need the existing arrangements with the Presidency Banks be materially disturbed. The Government treasury balances, the Committee understand, are as a rule at their maximum in March, April and May, which are precisely the three months in which the demands of our export trade call for the largest monetary facilities, and in consequence the highest rates of interest prevail. It seems to the Committee of the Chamber, therefore, that a considerable revenue might be earned at that period of the year by Government lending out such sums as they safely had available. Tenders might be invited from the Presidency Banks and from Exchange Banks on the security of Government paper for loans at thirty, sixty, or ninety days, in such amounts as might be convenient in the different financial circles. The effect of making such advances would be all in favour of a steadier money market throughout the year, as on the one hand the result would be to keep the amount of the Government balances with the Presidency Banks—now an element of considerable uncertainty—at a more uniform level, while on the other, by limiting the rush of money into the country to meet the requirements of the export season, the after collapse which usually ensues when these funds are set at liberty would be avoided.

7. Matters of detail would no doubt require to be carefully considered and worked out, but a wide-spread feeling prevails in commercial circles that some such system as that indicated would be of advantage to trade, and at the same time safe and profitable to Government, and the Committee of the Chamber respectfully suggest that the subject is of sufficient importance to warrant grave consideration.

No. 234, dated 12th January 1889.

From—The Offg. Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE.

To—The Secretary, Bombay Chamber of Commerce.

I am directed to acknowledge the receipt of your letter of the 4th October 1888 stating the views of the Chamber on the withdrawal of a portion of the Government balances last July from the Bank of Bombay, and on the policy of Government in dealing with its cash balances in the public treasury.

2. As regards the withdrawals from the Bank, the Chamber will see from the letter addressed this day to the Bank (copy enclosed) that the Government of India approves the proceedings of the Accountant-General on that occasion, and does not consider it desirable to prolong the discussion of the circumstances which gave rise to the present correspondence.

3. As regards the views expressed by the Chamber on the policy pursued by the Government in dealing with the Treasury balances and the proposal that the balances should be made available for purposes of trade, I am to invite the attention of the Chamber to the paper by Mr. J. Westland, of which a copy is annexed to this letter, in which he sets forth at length the sums actually maintained in the treasuries, the nature and extent of the claims upon them, and the method in which the transactions of the treasury are conducted. The Governor-General in Council hopes that the facts stated in this paper will convince the Chamber that the Government does not maintain balances in excess of actual requirements, and that the method of dealing with those balances is sound. His Excellency in Council is satisfied that no substantial change in either of these respects is called for, and that no such change could be adopted consistently with the pursuit of a prudent policy in meeting the requirements of the State.

4. The Chamber will observe from the letter addressed to the Bank of Bombay that the Government of India does not see its way to comply with the desire expressed both by the Bank and the Chamber that the Treasury balances should be used, in a larger degree than at present, to facilitate trade. The Chamber's remarks contained in paragraphs 6 and 7 of the letter under reply have been carefully considered, but the Governor-General in Council finds himself unable to depart from the policy hitherto adopted. His Excellency in Council cannot agree with the Chamber that the arguments on which that policy was based in 1875 have lost their force at the present time. Trade has certainly expanded, but with its expansion banking facilities have proportionately increased, and it is less in need of State support now than in 1875. The volume of trade and the demand for money are steadier, and less liable to violent fluctuations throughout the year, than they were in past periods, and it is not necessary, therefore, to adopt special measures to prevent fluctuations which are rarer than was the case when the policy of Government was formulated.

5. His Excellency in Council is, moreover, convinced that nothing but evil could result from the adoption of the suggestion that the Government should enter into competition, in making loans to the mercantile community, with the Presidency Bank. Trade should be left to depend upon its own financial resources. If advances were systematically made by Government during the busy season there would be a tendency to reduction of the working balances of the country to an unsafe minimum and the consequent risk of panic, to guard against which is an important object of the Reserve Treasuries. If advances were made at a lower rate than the published rate it would be difficult to confine the privilege of obtaining money at less than its value to the Presidency Banks, and these Banks would also be increasingly anxious to profit by such loans, and tempted to enter upon speculative operations with the resources placed at their disposal by the State, allowing their own reserves to fall below the limit of safety. The Government of India is not prepared to adopt a course which would tend to produce such results, and the deliberate conclusion of the Government, after giving the proposals of the Chamber the fullest consideration, is that any assistance in relief of the money market which may be afforded by means of the Treasury Reserve can only be made through the Bank, and at its published rate of discount, in relief of temporary stringency, and that no departure from the policy hitherto pursued can be allowed.

6. I am in conclusion to invite the attention of the Chamber to paragraph 22 of Mr. Westland's paper, and to say that the impression which appears to exist in some quarters that Government manipulates the Presidency Bank balances with the view of forcing a demand for Council Bills is entirely without foundation. Any such manipulation would, in the opinion of the Government of India, be unjustifiable, and would, eventually, fail of its intended effect.

*Note on the management of the Government Balances.*

In passing through Bombay I had a conversation with Mr. Forbes Adam on the subject of the recent correspondence about Government Cash Balances, between the Bombay Bank and the Bombay Chamber of Commerce (of both of which Institutions he is President) on the one side, and the Government of India upon the other; and adopting the suggestion which he made to me, I propose to put on record this general sketch of the manner in which the Government Balances are managed.

2. The leading facts upon which the regulation of these balances depends are these:—

(1) That the months of August, September, October, and November produce far less than their proper share of revenue, and that the current expenditure during them has to be met to a considerable extent by a depletion of balances;

(2) That the minimum balance with which the Government Treasury business can be worked, that is to say, with which we can undertake to have money ready, at every treasury, to meet the demands upon us, is at least eight crores of rupees.

3. The main factor in the determination of this figure of eight crores is (as it must always in such cases be) actual experience. We find, as a matter of fact, that as our balances approach a minimum of eight crores, we have to multiply very greatly the amount and rapidity of the cash remittances by which we transfer money from the treasuries at which it is received to the treasuries at which it is wanted to meet actual payments. There is a point at which it becomes more costly to make such remittances than to increase the available cash. For example, I do not say it would be actually impossible to meet the demands on our treasuries with a minimum balance of seven crores; but it is certainly the case that any attempt to work the treasuries with that balance would be accompanied with an outlay in cost of remittances that would not fall far short of the four lakhs of interest which we would have to pay if we raised another crore, in order to raise from seven to eight crores the amount at our disposal. And, besides this, there would be very great risk of our having to declare ourselves—at some of our treasuries—unable, pending the arrival of remittances, to meet our current obligations. What this would mean, apart from the discredit of it, may for a moment be glanced at. We might be unable to pay the soldiers and create serious discontent in the army; we might be unable to meet the current expenditure of working or of constructing railways; we might be obliged to stop important Public Works—an extremely costly proceeding even if they are immediately resumed.

4. This figure of eight crores might, perhaps, at first sight, seem large; but I shall state some considerations bearing upon it which will shew it to be not unreasonable. The Bank of Bengal were good enough to furnish me some time ago with an estimate of the daily amount of actual cash paid in and cash paid out at their head office in Calcutta. It amounted to about 12 lakhs each way, and to keep their position safe they ordinarily keep over a crore of rupees in available cash; that is, an amount exceeding eight days' transactions. Now the daily cash receipts and disbursements at the Government Treasuries amount to about 50 lakhs each, so that if we have a balance of eight crores we have only sixteen days' payments and receipts in hand. If the Bank finds it necessary to keep eight days in hand, in the case where all the receipts and payments occur in a single office, it may fairly be said that sixteen days is a somewhat narrow limit for a case in which the transactions are spread over 200 treasuries and 800 sub-treasuries, and in which the circumstances are such that the receipts often come in at treasuries very far removed from those at which the expenditure has to be met.

5. The manner in which the balances are distributed is arranged with the object of working the treasuries with the smallest possible amount. They are distributed into nine groups, coterminous with the nine Provinces of account, and each group is under the regulation of its own Accountant-General. The Accountant-General, besides receiving details of his actual balances twice a month, obtains, at the beginning of each month from each Treasury, an estimate of its transactions during the current month and the two succeeding months, and thus sees in prospect what treasuries have more funds than they require and which of them require to be supplied with funds in order to meet the demands upon them. He orders remittances accordingly, and such funds as are not required by him upon the whole account, he gathers towards a few Central Treasuries chosen with reference to their accessibility, where the surplus funds lie at the disposal of the Comptroller-General. These operations are carried out under the immediate supervision of the Comptroller-General, who exercises his supervision in this way. He receives from each Accountant-General, in October, an estimate showing the minimum balance he requires for the

service of his province on the first of each month; this minimum is by this time pretty well ascertained by experience. Guiding himself by this and by the monthly estimates above alluded to, which are consolidated and sent to him, he sees what provinces, from time to time, have surplus funds available, and in what provinces these surplus funds are required for expenditure. Such provinces as the Punjab and Burma are continually demanding funds to meet their heavy military expenditure; and the Comptroller-General has also to lay down funds to meet the demands at the presidency towns on account of Council Bills, Interest, Railway payments, &c. The Comptroller-General is thus directly interested in keeping the Provincial Balances at as low a point as possible. He may not actually, at each moment, concentrate his available funds at Calcutta and Bombay. He may, for example, leave them at the Central Treasuries of the Accountants-General, because he may see that if he took them away he would shortly have to send them back, and he may not find, in any commercial demand, the means of moving them without actual specie remittance. But whether actually moved or not, they are part of his available resources, and are at places whence they can be sent at very short notice to any spot where they are required.

6. This, therefore, is the general system of the management of the balances, devised, it will be seen, for the express purpose of enabling the Comptroller-General to carry his available resources, as far as possible, towards meeting the demands on the treasuries. It remains to add, in further explanation of the carefulness of management required at the hands of the Comptroller-General by the limitation of the funds at his disposal, that each month he gathers together the estimates of the various Accountants-General (to which allusion has already been made), and after careful collation of them, prepares a review which is laid before the Government each month, and which sets forth in detail the various demands which the Comptroller-General has to meet during the current and two succeeding months, and forecasts the plans, so far as relates to movements of funds, by which he proposes to meet them. Movement of funds is in itself, I may remark, a business of some complication, because it includes not only movements of actual specie but also consideration of mercantile and banking business, a class of remittance which of course we substitute, as far as possible, for specie remittance, whenever it is available.

7. I have thought it advisable to mention all this detail of management in order to shew that it is with some confidence that we set down as our practicable minimum the balance of eight crores at which we find by experience that we begin to be doubtful as to the possibility of moving our available funds to the points where they are required to meet expenditure. I may allude, before I go further, to two devices by which we call in the aid of our currency reserves in order to make this eight crores go further than of itself it would. Our normal currency reserve of coin we may put down at six crores of rupees. This amount is, of course, by law, sacred to the purpose of supporting the currency circulation; we cannot apply it to any treasury purpose. At the same time, it is vastly more than in ordinary times is necessary for the purpose of actual encashment of notes. It is scattered over the various places from which we are by law authorized to issue notes. One perfectly legitimate operation of which we take great advantage is that we depend upon this currency reserve for facilities of rapid remittance. For example, we can make a remittance of, say, 20 lakhs, at a moment's notice, from Calcutta to Lahore, by simply paying in 20 lakhs to Currency Office at Calcutta, and obtaining at the Currency Office an order upon the Lahore Currency for 20 lakhs to be paid to treasury there. I think it is not too much to estimate this facility of remittance at a crore of rupees; that is to say, a balance of eight crores, with this facility of remittance through currency, goes quite as far towards meeting our liabilities, as a balance of nine crores would without this facility. I may further mention in this connection the utilization of the currency reserve at Rangoon for keeping, from one busy commercial season to another, the large supplies of silver which are required for the rice trade, and which used to a large extent to be sent down by the Banks by specie remittance from Calcutta before each rice season, and brought back after it. The other way in which the currency balance helps us is a comparatively unimportant one, but still it does give us some small assistance. One of the liabilities we undertake with our treasury balances—in addition to that of meeting our payments—is that of supplying both ourselves and the public generally with small coin, and as we must always have a considerable stock of small coin in hand, the reserves of this stock are practically an inefficient balance. That is, part of our eight crores consists of this class of coin, and cannot be considered available for the general purposes of a cash balance. So far as copper coin is concerned this is a weight we must bear, but it is not an appreciable one. So far, however, as small silver is concerned, we can transfer the burden to the currency reserve. Silver bullion is a form in which it is quite lawful to hold currency reserve, and if we possess a reserve stock of ten lakhs, say, of small silver, we can keep it as part of our currency reserve, and thus have the full use

of our supposed cash balance of eight crores, instead of having ten lakhs of it locked up in the unavailable form of small silver coin.

8. I think, therefore, I may legitimately contend that the fact that we require a minimum of eight crores for the purpose of conducting the treasury business arises from the actual necessities of the business, and not from any want of efficiency or attention in the conducting of it. And if the demands be measured, even in the roughest way, by the number of places where funds have to be provided, eight crores will seem a small sum to cover them all. For the three presidency towns alone the Government balances at the Banks require at least 125 to 150 lakhs, and it must be remembered that the minimum period of December is that at which trade is reviving, and the Secretary of State beginning to increase his drawings to 50 lakhs a week. Rangoon, Allahabad, and Lahore are all headquarters of provinces, where the Accountant-General must not be left without a fair reserve wherewith to support the 40 treasuries he has to supply; there are distant treasuries like Quetta and Aden, where expenditure is heavy, and which must be made independent of external aid. There are first class military stations like Peshawar, Lahore, Multan, Rawalpindi, Umballa, and Delhi (not to go beyond the limits of a single province), where the expenditure of the first few days of the month is measured by lakhs of rupees. There is Upper Burma, a country where the heavy expenditure of a military occupation has to be met, and where the means of communication are as yet so imperfect as to necessitate each treasury being made almost independent of its neighbours. Small amounts at each treasury, which come to a considerable amount on the whole, are required to give to the public, as far as possible, facilities for obtaining and exchanging small coin and currency notes; and it may be mentioned that, for the convenience of the public, we receive foreign-circle notes freely in payment of revenue, which necessarily to some extent locks up for the time a part of our funds. The working out of the detail of the distribution will thus be found to mount up very rapidly towards the allotted total.

9. Above all, there is the consideration that the treasury must, outside the Presidency towns, absolutely depend upon its own resources; and that there is no reserve of any kind upon which it may fall back, if it is itself deplenished.

10. It must be understood that this eight crores, of which I have been writing, is a practically irreducible minimum; it is not the actual balance with which we can, as a matter of system, carry on the treasury work. On the contrary, it represents a state of strain which can be maintained for a time, but which implies a certain expenditure in remittance, and a certain incurring of risk. It is a condition of things which we can afford to stand for a month or so, when we know that mere efflux of time will bring a speedy recovery, but which would be intolerable, and probably somewhat expensive, if we were obliged to accept it from year's end to year's end as the normal condition of the management of business. To represent the permanently possible condition, we must first of all give ourselves a margin of 20 per cent. beyond the eight crores, and put down about 960 lakhs of rupees as ordinarily absorbed in the actual meeting of demands upon the treasuries. Though it is possible occasionally to work down to 800 lakhs, it is unwise to attempt to do so, if we have 960 available; that is, out of our total treasury balance at any time 960 lakhs must necessarily be scattered over the various treasuries where payments have to be made. But even this is not enough during the months when the revenue is in active collection, for the revenue then collected necessarily largely increases the balances of the treasuries until such time as it can be carried away to the places—often at a considerable distance—where it is required for payments. A notable instance of this occurs at the end of March in Bengal. Bengal ordinarily can be easily worked with a balance of 120 lakhs at the outside (of which 10 to 15 are in the Bank of Bengal). But the Accountant-General has to lay down very heavy balances at the end of the month in the Behar treasuries in order to meet the large opium payments which then begin. He completes this operation, say about 20th or 25th of March, and as soon as he has done so, he receives at the treasuries in Lower Bengal the March instalments of land revenue. About a crore of rupees are paid in on 26th, 27th, and 28th of March. The consequence of these two operations—which it is not possible to fit into each other, as the money is required to be laid down in the western treasuries before it can be sent from the eastern—is that Bengal always ends the month of March with a balance considerably in excess of 200 lakhs.

11. On the whole, therefore, the really practicable working balance, except at the minimum period of the year when little revenue is coming in, may be put down at at least 1,000 lakhs, and it is only the excess over that amount that can be regarded as held by the Comptroller-General in reserve, mostly in the reserve treasuries, but partly also in those "central treasuries" where the Accountants-General may, as explained in paragraph 5 above, place their surplus funds to await the orders of the

Comptroller-General. The following figures show, for the past 24 months, the whole Treasury balance, divided into—

(1) the amount held in Reserve Treasuries;
(2) the amount held in all other Treasuries.

| Last Day of. | 1886-87. | | | 1887-88. | | |
|---|---|---|---|---|---|---|
| | Reserve. | Other. | Total. | Reserve. | Other. | Total. |
| October | 1,31 | 9,41 | 10,72 | 1,51 | 8,87 | 10,38 |
| November | 89 | 9,42 | 10,31 | 1,71 | 8,85 | 10,56 |
| December | 58 | 10,09 | 10,67 | 83 | 9,47 | 10,30 |
| January | 1,03 | 10,96 | 11,99 | 1,59 | 11,63 | 13,22 |
| February | 77 | 11,24 | 12,01 | 1,43 | 11,79 | 13,22 |
| March | 51 | 12,68* | 13,19 | 72 | 13,16* | 13,88 |
| April | 69 | 10,38 | 11,07 | 1,42 | 10,70 | 12,12 |
| May | 95 | 9,75 | 10,70 | 1,00 | 10,81 | 11,81 |
| June | 1,25 | 10,78 | 12,03 | 1,05 | 12,45 | 13,50 |
| July | 1,07 | 10,26 | 11,33 | 3,65 | 11,76 | 15,41 |
| August | 2,09 | 9,74 | 11,83 | 2,80 | 10,48 | 13,28 |
| September | 1,88 | 8,90 | 10,78 | 2,30 | 10,48 | 12,78 |

* The explanation of the especially high figure of 31st March lies in the circumstances of Bengal just mentioned.

12. I stop for a moment to note upon the apparent irregularity of these figures They would seem at first sight to be subject to no particular law, but this circumstance arises out of two sets of transactions *only*, namely, the rate at which the Bills of the Secretary of State are paid, and the rate at which loan receipts are paid in. The following are, in lakhs, the transactions of each of the above 24 months, divided under three heads:—

| 1886 and 1887. | Council Bills. | Loans. | Other transactions. | Council Bills. | Loans. | Other transactions. |
|---|---|---|---|---|---|---|
| October | − 38 | + 33 | − 86 | − 98 | + 43 | + 15 |
| November | − 1,14 | + 22 | + 51 | − 82 | + 7 | + 93 |
| December | − 1,42 | − 2 | + 1,80 | − 1,88 | — | + 1,62 |
| January | − 2,57 | — | + 3,89 | 1,95 | — | + 4,87 |
| February | − 1,77 | — | + 1,79 | − 2,05 | — | + 2,05 |
| March | − 2,27 | — | + 3,46 | − 2,26 | — | + 2,93 |
| April | − 2,72 | + 32 | + 28 | − 2,09 | — | + 32 |
| May | − 1,95 | + 51 | + 1,07 | − 2,28 | — | + 1,98 |
| June | − 1,58 | + 52 | + 2,38 | − 1,33 | — | + 3,02 |
| July | − 1,50 | + 67 | + 13 | − 1,56 | + 2,88 | + 59 |
| August | − 1,66 | + 2,49 | − 33 | − 1,33 | + 12 | − 92 |
| September | − 1,11 | + 49 | − 43 | − 1,03 | — | + 47 |

13. Now it will be seen that although there is considerable irregularity under the first two heads (Secretary of State's Bills and Loans), there is no very great diversity (considering the vastness of our transactions) under the last or residuary head. In other words, if our balances were not affected by variety in the amount paid out on account of Secretary of State's Bills, and of the amounts paid in on account of loans, they would show, year after year, very much the same details of variation. The minimum period is, as I have already stated, the month of December. The large Revenue receipts of the next few months cause the balance to increase considerably up till June, notwithstanding that this is the heavy period of the Secretary of State's drawings. After remaining stationary for a month or two, the balance runs down very rapidly in September, October, and November, in which months the amount of revenue received is very small. It is during, or about, these latter months that we usually arrange to receive the money we raise by debt, partly because they are the months in which the money market finds it easiest to supply our demand, and partly because it is the time when the money most conveniently reaches us with reference

to Treasury requirements; that is, it comes in, not in supplement of a large balance already held, but so as to prevent our balances falling too low for our necessities.

14. The amount of the loan is carefully calculated beforehand, upon a forecast of the monthly balances, so as to give in the amount necessary to tide over December with our minimum of eight crores or a little more. If we do not, as a matter of fact, get down to that figure, or nearly so, it is usually because the Secretary of State has not succeeded in placing his bills to the extent he hoped. The remittance of 15 millions sterling to England is a very large and important operation, in which it is necessary to allow a *very* considerable amount of latitude, and it would be grievous mismanagement if, when the Secretary of State was finding a market for his Bills, we were obliged to tell him that our balances were so weak that he must reduce his drawings. We must, therefore, be careful not to underestimate his demands; or in other words, we not unfrequently find that his drawings are a crore or two behind our estimates, and that, in consequence we are, as a matter of fact, left in December with a balance of a crore or two in excess of the minimum down to which we can work.

15. Reverting now to the figures given in paragraph 11 above, I think it will be admitted that the Bombay Chamber of Commerce state the problem wrongly when they describe the Government balances in their letter of 9th August 1888 as $10\frac{1}{2}$ to $13\frac{3}{4}$ crores of "large unemployed balances," and enquire whether "this enormous amount of money could not be made available for the purposes of trade." I have shown that of this amount about 10 crores cannot in any sense be described as lying idle, but is actually required to support the treasury business of the country. I shall presently examine the question whether the amount can be ever described as "unavailable for the purposes of trade," but as the Chamber's reference was mainly to trade at the Presidency towns, it is sufficient to point out at present that the only amount that can be made available for such purposes is the amount lying in the reserve treasuries, which, except immediately after the receipt of loans, rarely exceeds 200 lakhs, and is ordinarily considerably less than that figure. The money in the "Central Treasuries" (paragraph 5) cannot be made available at Presidency Towns, as, if it is kept in the Central Treasuries, it is so kept on the ground that it is likely to be required up-country, and it would never be worth while to send it on a journey of some hundreds of miles only to be sent back again after a short time. Besides, as will presently be mentioned, many of these Central Treasuries are at branches of Presidency Banks, so that the Banks already have the employment of the money so long as it is not required for Treasury purposes.

16. The question raised by the Chamber is, therefore, narrowed to the question whether Government should lend out, for commercial purposes, the balances held in the Reserve Treasuries at the Presidency Towns. And if I rightly understand their letter of 4th October, this is the form to which their proposal is actually reduced, namely, that during the months of March, April, and May, the balances which are so held might be lent out for commercial use. I do not consider it necessary or desirable that I should in this place enter upon any discussion of this question; it will receive the full consideration due to a proposal emanating from such a body as the Bombay Chamber of Commerce. The object of my paper is merely to remove the misconceptions which seem to me to have hitherto surrounded the subject, to set forth in a clear light what is possible and what is not possible, and to define more accurately the issue which arises out of the present correspondence.

17. I come back now to the question of our 10 crores of actual working balance. Are the Chamber of Commerce right in describing this balance as "unemployed," and as "not available for the purposes of trade." I am afraid I must directly traverse this statement.

18. In the first place, a very considerable share of the 10 crores is placed directly at the disposal of trade through the system of Presidency Banks. The actual statistics show that during the last two years the amount of Public Deposits in the Presidency Banks and their branches has fluctuated between 262 lakhs and 390 lakhs, and this is almost entirely supplied out of our 10 crores of Cash Balances. At the three Head Offices the Government Balances have not, since December 1885, been below 130 lakhs, and they have often been much higher than 150.

19. Of the District Treasuries, the largest and most important are at the places where there are Bank Agencies, and at these places the whole of the Government Balances are made available for trade through the agency of the Banks. Nor is there any limit to the amount of balances which may be thus placed except that which is imposed by the action of the Banks themselves. That is, whenever any of the Presidency Banks finds it worth its while to establish an agency at any place where there is a District Treasury, the balance at the District Treasury would almost, as a matter of course, be made over to its custody. In other words, wherever there is trade sufficient to avail itself, under the Presidency Banks system, of the local Government Balance, there the local Government Balance is placed at the disposal of the trade.

20. Another method by which the Government Balances are made available for purposes of trade is, that they are by the officers of the Government made available

for purposes of remittance. Indeed, it is not too much to say that the whole of the system of inland trade remittance is supported by and carried on through the Government Balances. Of the extent to which this is done I believe few persons have any cognisance, and I therefore attach a report of my own written in 1883, in which the subject is generally reviewed. As I am writing mainly with reference to the representations of the Bombay Chamber of Commerce, I may take the opportunity of adding, by way of completing the subject, that a very important series of remittances—those connected with the financing of the Bombay cotton trade—is carried on through the Berar Treasuries, but is not noted in the enclosed paper, as these Treasuries lie outside the system of Government Treasuries proper.

21. I trust that the explanations I have given will cause the Chamber of Commerce to change its opinion about the 10 or 13 crores of money which they have hitherto considered to be lying idle, so far as the needs of trade are concerned. We may fairly claim that we do—perhaps not all we might do, but still—a very great deal towards making our balances available for the purposes of commerce. Their first purpose, it must be remembered, is that of supporting the actual treasury transactions of the Government, and we do our best consistently with the primary purpose, towards making them facilitate the commercial transactions of the country.

22. Before I conclude this paper I would make a few remarks upon an accusation which I have over and over again seen brought against us, of manipulating our Presidency Bank Balances with the view of forcing a demand for Council Bills. Having had the direct management of these matters for five years, I can say that, though the statement was repeatedly made during that time, it was in no instance true. In the first place, I do not believe that any such manipulation would, in the long run, succeed. We have it, indeed, in our power to tighten money by ordering large withdrawals to reserve, but as the money will have to go back sooner or later, we shall lose as much advantage when we return it, as we have gained by withdrawing it. In the second place, I have a great belief in the mischievousness of all artificial manipulations of the balances available for trade, that is, any variations which are not the direct outcome of trade action I believe to be directly dangerous.* Why it should be imagined that a state of things which is dangerous or inconvenient to trade is profitable to Government I fail to perceive. My endeavour has therefore always been to keep the Government Balances at the Bank at as nearly one level as possible. The action of Government is usually confined to feeding the Bank with money to meet the local demands on the Government account, and my action in the matter in question has usually been directed towards feeding it so as on the whole to preserve, at as steady a level as possible, the balance at the credit of the Government account.

* On this ground I disagree in the Bank of Bombay's proposal that we should receive loan money only on the days fixed for the instalments. The duty of Government is to make the operation as elastic as possible, and to leave to ordinary trade channels the adjustment of the Government demand to the conditions of the market. I feel sure that the Bank's suggestion would not be acceptable to those who finance our loans. Nor is it in conformity with the usual practice in raising capital in London.

23. The real explanation of the features which give rise to the accusation is almost amusing in the proof it affords of the way in which evidence may be twisted from its real bearing. Just before the Bank's statement has been published we have received, say, forty lakhs of opium revenue; for the financing of the opium trade in Calcutta, accumulated as it is towards one short part of each month, causes nearly every month a violent fluctuation of this kind in the Government Balance, and any attempt to level down the fluctuation thus caused would give a violent wrench to the market under the appearance of maintaining a uniform level. There is, however, an active demand for Bills; perhaps forty lakhs come out in one mail, and are paid by the Bank of Bengal; the obvious result is that unless other transactions compensate for this withdrawal the "Public Deposits" are reduced by forty lakhs. The next weekly account of the Bank appears, and it is immediately asserted that "Government has withdrawn forty lakhs," and Government is severely condemned for withdrawing so large a sum from a market hungry for money. The truth, however, it will be seen, is exactly the opposite. The forty lakhs which came in one way have now passed out in another way from the balance of the Government to feed the demands of the market, and the reduction in the Government Balance is a sign that the money market is being relieved by the regular course of transactions, and not that it is being tightened. I have once or twice given this simple explanation in the public press, but without much avail, for I find that Government is still occasionally charged with "withdrawing its balances," when all it has done is that it has been paying out money in satisfaction of the bills drawn by the Secretary of State in favour of merchants and bankers in India.

J. WESTLAND.

20th November 1888.

E. J. SINKINSON,
Offg. Secretary to the Government of India.

*Extract from Financial Statement of the Government of India, 1889–90.*

105. The present year has seen a great scarcity of money in the Indian markets, which has kept the Bank rate at 12 per cent. for a considerable period, and as usually happens in such cases in this country, the question has been raised whether Government might not in some way come to the assistance of trade.

The scarcity is no doubt owing in part to an early cotton season in Bombay coinciding with a demand for rice in Burma, and other customary requirements at this season; but the root of the difficulty appears to be the doubtful position of silver. But for this it seems inexplicable that for week after week there should be a difference of 9 per cent. in the rate of money in London and India, and yet that in some weeks the whole amount of bills and transfers offered by the Secretary of State should not be taken up.

106. That so high a rate of interest is prejudicial to trade is obvious, and Government has not been unmindful of the fact. The best way in which Government can assist trade is by providing that the Secretary of State's drawings shall never be curtailed for lack of money to meet them, and in one week demands for bills and telegraph transfers exceeded 77 lakhs. Arrangements are also made to grant telegraph transfers freely at a small charge between the three Presidency towns; and Government, besides keeping up the normal current balances, has further been able to offer to the Presidency Banks at Calcutta and Bombay temporary loans at their own minimum rate of interest, if they cared to avail themselves of the offer.

107. As the Treasury balances are nearly two crores below last year, and in fact lower than they have been for twenty years at this season, all this would scarcely have been possible without the assistance derived from what are called "currency transfers," a system which, while preserving the Reserve of the Paper Currency Department intact for the payment of the currency notes, yet gives the advantage of a large balance that can be made available without the delay of actual remittance, wherever it may be wanted. Thus in the present month the accruing revenue of the opium districts has been allowed to remain in those districts in the charge of a currency agency, an equivalent being immediately released to the Treasury in Calcutta; a fortnight hence this money will be wanted for payments to opium cultivators in the districts, but by that time the Land Revenue from Eastern Bengal will have been received, and, being in like manner made over to the Currency Department, will liberate the coin where it is wanted.

108. The charge that Government does not do all it might to assist trade sometimes takes the form of an assertion that the currency balances should be lent out in a time of pressure. This is, of course, impossible, as the currency balances are pledged by law to secure the convertibility of the currency notes, and can no more be lent to the market than can the gold in the Issue Department of the Bank of England.

109. Another contention is, that the cash balance of the Government of India is too high. Now the question whether the Government cash balance is too high or too low, is one that must be determined by the experience of those who actually deal with that balance, and are responsible for seeing that there is sufficient money in the Treasury to meet all the claims against Government.

I do not think I exaggerate when I say that every person who has experience of the actual work of dealing with the balances in this country is in favour of rather a high cash balance. The question has been frequently considered both in India and in England, and though a cash balance of 10 to 13 crores may seem enormous, yet if we reflect on the special difficulties in the way of suddenly obtaining a large amount of cash in this country, on the sudden and large demands to which Government is exposed, and on the enormous extent of country over which the balance has to be spread, it will easily be recognised that the mere fact of the cash balance being large is no proof that it is larger than is required by the wants of the case.

Some authorities hold that, if anything, the Indian cash balance has been kept somewhat too low in recent years. In that opinion I am inclined to concur. The cash balance of recent years has been low because the claims against the Government were heavy owing to expenditure of all kinds, and it was thought desirable to avoid borrowing more than was absolutely necessary.

110. I have mentioned the allegations, (1) that Government ought to lend out the currency balance, and (2) that Government keeps too high a cash balance simply in order to clear the ground. There is no force in them, and they could only be made by persons ignorant of the facts of the case. I now come to what is the real question, namely, the expediency of the maintenance of the Reserve Treasuries in the Presidency towns. Should the Government keep the whole of its spare cash in the Presidency Banks, or should it aim at keeping balances of tolerably constant amounts in those banks, the surplus being kept in the Reserve Treasuries? This is a question which deserves consideration, and on which there may reasonably be a

difference of opinion, though I can hold out no hope of any change in the policy of Government in this respect.

The justification for the existence of the Reserve Treasuries is to be found in the special conditions affecting the Indian money market. These special conditions are the liability of that market to extreme pressure at times, the difficulty in adding temporarily to the amount of cash by drawing on other markets, and the magnitude of the cash transactions of the Government as compared with those of the trade. Under the circumstances I have just stated, and looking to the fact that the Government in case of war, famine, or other unexpected cause, is exposed to the risk of having to meet sudden and large demands on it for cash, it was decided by Lord Northbrook's Government that it would be to the interest both of the commercial public and the Government of India that the surplus cash, for the time being, of the Government of India in excess of certain regulated balances in the Presidency Banks and the cash in Mofussil Treasuries, should be kept in Reserve Treasuries.

It was held that, if the whole of the surplus cash was kept in the Presidency Banks, trade would rely on the permanence of the resources thus supplied to it, and that, in case of a sudden demand for cash, the Government of India would either be forced to abandon its right to reduce its balance in the Presidency Banks, or risk producing a financial crisis by suddenly and largely reducing the resources of these Banks.

To show that this is not an imaginary fear, I will quote a telegram received in 1874 from the Government of Bombay:

> "Clear the line. You are placing the exchange banks and trade of Bombay in great danger. The eight Exchange Banks are indebted to the Bank of Bombay 68 lakhs of rupees, half payable on demand secured by Government paper, and remainder in February. Their balances for current purposes in the Bank of Bombay are under 20 lakhs of rupees; balance of other customers of Bank of Bombay exceedingly low. Bank of Bombay has to meet Council Bills for 25 lakhs of rupees arrived from England this morning, and similar Bills for 20 lakhs of rupees will shortly arrive. Bills on Calcutta absolutely unsaleable. If you draw more on Bank of Bombay, they must call in sums due from the Exchange Banks, and there will be a general panic and a serious danger of stoppages."

There was at that time a Government balance of about 100 lakhs in the Bank of Bombay, and the proposed withdrawal, which called forth this startling protest from the Governor of that Province, only came to 35 lakhs. I do not think a stronger argument could be produced to show the dangers that might arise if the Government of India reverted to the old system of keeping all its spare cash in the Presidency Banks. The arguments which weighed with the Government of India in introducing the system of Reserve Treasuries are contained in a Despatch to the Secretary of State, No. 256, dated 30th June 1874*; it has been printed in the Appendix to this Statement. It will show that the policy of the establishment of Reserve Treasuries was adopted deliberately, and in order to meet real difficulties.

111. It has been urged that Government could relieve the market by lending out the balance of the Reserve Treasuries on favourable terms to the Banks: but, if this course were followed, the same difficulties that arose when the Presidency Banks held the whole of the surplus balances would again occur. Trade would become accustomed to rely on the resources furnished by the Government, and at a time of pressure the withholding of the assistance usually given by Government might have a very serious effect.

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**Despatch from Government of India (Finance and Commerce Department), No. 30, dated 2nd February 1899.**

**To the Right Honourable Lord George Francis Hamilton, Her Majesty's Secretary of State for India.**

My Lord,

We have the honour to submit, for your Lordship's consideration, the following papers relating to the use of the Government Balances in aid of banking resources in India:—

1. Report by Finance Sub-Committee to the Committee of the Bengal Chamber of Commerce, on a proposal to make a representation to Government with the view of altering the present system of managing the Treasury Balances so as to allow of funds being placed more freely at the disposal of the public during the busy season of each year.
2. Note by the Honourable Sir James Westland, K.C.S.I., on the management of the Government Balances. (This is practically the same as the first part of the paper submitted to your Lordship with our Despatch No. 332, dated 20th October last).

* *See* page 30.

3. Proceedings of an interview on the 11th January 1899 between a deputation from the Committee of the Chamber and the Honourable Sir James Westland, K.C.S.I., on the question of the management of Government Cash Balances.

2. The whole question is sufficiently discussed in these papers and in the papers therein referred to as having been published in the *Gazette of India* of 23rd February 1889; and the proposal we would make to your Lordship is that during the months of January to May of each year, when large sums are withdrawn from the public in payment of Government revenue, it may be recognized as part of the ordinary business of management of the Treasury Balances to lend money to the Presidency Banks at one per cent. less than the declared minimum rate of discount of the borrowing Bank. It is not our wish, and it might prove embarrassing in our own business, to give the Banks an open credit upon which they may operate or not as they please; but the kind of transaction admissible would be that the Banks might obtain, on the security of Government paper, loans, not less than ten lakhs of rupees on each occasion, repayable after a fixed period of one, two, or three months, but in no case later than 31st May, by which date we should again be in command of our own funds under ordinary conditions. We would not pledge ourselves to be always ready to lend, and it must be always remembered that, in the management of the public funds, the requirements of the public administration come before those of trade and commerce; but under ordinary circumstances we consider we could without difficulty spare 1½ crores of rupees during the months in question.

3. These arrangements would come within the meaning of the despatch No. 225, dated 6th May 1875, of your Lordship's predecessor (see especially paragraph 17), but we consider it desirable to resubmit the case now, as it is mixed up with matters that are at present under the consideration of the Currency Commission.

4. It will be observed that the President of the Bengal Chamber of Commerce at the Conference of 11th January, expressed the opinion that advances of the kind would not be required until the Bank rate threatened to exceed 10 per cent. We would not consider it necessary to prescribe a condition of the kind, but we believe it is the case that it would not pay the Presidency Banks to take loans on the above terms unless the rate for money approached that figure and threatened to remain very high for some time.

5. We cannot say that the proposed facility for borrowing money in India would not in any way interfere with your Lordship's Council Bill operations. But as the proposed loans would be only temporary, and the money would have to be returned to the Reserve Treasury by an early date, the effect would not be a permanent one. Though it might operate to slightly diminish the demand in January and February, it would, in the same measure, increase it in April and May. On the other hand, it is to the advantage both of trade generally and through trade, of the demand for Council Bills, that the rates of discount should not be so high as they have been during the last two cold weathers; and we believe that, so far as Council Bill operations are concerned, we may count upon obtaining quite as much advantage in this way, as there may be disadvantage in meeting, in the manner proposed, part of the demand for money during the active season of foreign trade in India.

We have the honour to be,

MY LORD,

Your Lordship's most obedient, humble Servants,

CURZON OF KEDLESTON.
W. M. A. LOCKHART.
J. WESTLAND.
M. D. CHALMERS.
EDWIN H. H. COLLEN.
A. C. TREVOR.
C. M. RIVAZ.

Bengal Chamber of Commerce,
Royal Exchange Building,
Calcutta, 17th December 1898.

Memo. for the Committee.

MANAGEMENT OF THE TREASURY BALANCES.

I am directed by the Finance Sub-Committee to submit to the Committee of the Chamber their Report on the proposal to make a representation to Government, with the view of altering the present system of managing the Treasury Balances so as to allow of funds being placed more freely at the disposal of the public during the busy season—February to June of each year.

The Finance Sub-Committee have carefully considered the file of papers sent down, and have also had before them reports of the proceedings of the Legislative Council of India in various years, from which they have been able to ascertain what action has previously been taken in regard to the matter by the representatives in the Council of the Mercantile Community. They have noted from these proceedings that Sir David Barbour at the meeting of the Council, held on the 27th March 1889, dealt at length with the whole question, and expressed himself in opposition to any change in the existing system. Mr. Robert Steel and Sir Alexander Wilson, representatives of the Chamber on the Council, have also spoken on different occasions in support of the views expressed by Sir David Barbour.

The Finance Sub-Committee, notwithstanding, have reported in favour of a representation being made to Government, as they consider the position is now somewhat changed, and think it is most advisable that, as the season of the year when the Cash Balances are highest coincides with the exporting season when money is most scarce, Government should, during that period, lend sufficient cash to the Presidency Banks to enable those Banks always to be in a position to make advances on Government Securities. They consider that it is damaging to the credit of Government that Government paper should at any time cease to be a loanable security. They have been strengthened in this view by the fact that several witnesses before the Currency Committee, notably Sir Edgar Vincent and Mr. A. M. Lindsay, were in favour of such a course being pursued by Government.

The Sub-Committee are of opinion that Government could, without danger, advance sufficient cash to relieve the stringency which generally exists from February to June in each year.

W. PARSONS,
Secretary.

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The following is the Report of the Sub-Committee :—

The Finance Sub-Committee recognise that in the conditions attaching to both Imperial and trade finance in India, the Government cannot place Treasury Balances at the disposal of trade with so free a hand as is done in England. The question before the Committee, however, appears to be not the wholesale surrender of Treasury Funds to the Presidency Banks, but the discretionary disposal of them in periods of stringency. If the action of the Government is such as to unnecessarily cause a money stringency at one season of the year, and a deceptive redundancy at another season, it follows that the manipulation of these funds is a potent disturbing influence in our money market.

It has been the impression for years that the Government have been sparing of their deposits with the Presidency Banks during the seasons of greatest pressure, with the object of stimulating exchange, and lavish with their deposits in the monsoon months when easy money has helped them to issue new loans.

In order to ascertain whether this impression has any justification in fact, the Finance Committee have had the following tabulated statements prepared. The point to be arrived at is this. The collection of revenue, especially the land revenue, withdraws from active circulation considerable sums of money at certain seasons, and it so happens that this withdrawal of money from private hands takes place just when funds are most needed for harvest requirements. By comparing the balances in the Civil Treasuries and Reserve Treasuries with the Treasury Balances in the Presidency Banks in March, July, and November of several years, a fair estimate may be formed of the relation between revenue funds held apart and those placed at the disposal of trade (*see* Statement I.) These months are selected because, generally, March is the month of acutest trade demand and largest accumulations of revenue, July the month of smallest trade demand, and November the month of smallest Government revenue.

I.

Statement showing Cash Balances in Government Treasuries, Reserve Treasuries, and Presidency Banks, in the months of March, July, and November from 1888 to 1898.

| Total Balances in Government Treasuries. | | | | Balances in Reserve Treasuries. | | | | Balances in Presidency Banks. | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year. | Last day of March. | Last day of July. | Last day of November. | Year. | Last day of March. | Last day of July. | Last day of November. | Year. | Last day of March. | Last day of July. | Last day of November. |
| 1888 | 13,88,37,000 | 15,41,25,000 | 9,34,96,000 | 1888 | 71,87,000 | 3,64,51,000 | 79,04,000 | 1888 | 1,36,72,000 | 1,95,23,000 | 1,30,02,000 |
| 1889 | 13,30,51,000 | 12,70,22,000 | 9,00,61,000 | 1889 | 1,33,87,000 | 87,55,000 | 98,76,000 | 1889 | 1,42,84,000 | 1,71,94,000 | 1,64,04,000 |
| 1890 | 14,74,89,000 | 13,58,90,000 | 9,66,89,000 | 1890 | 1,31,66,000 | 2,39,37,000 | 1,35,86,000 | 1890 | 1,75,89,000 | 1,57,23,000 | 1,77,76,000 |
| 1891 | 17,87,61,000 | 14,96,65,000 | 10,91,07,000 | 1891 | 4,31,11,000 | 3,07,85,000 | 1,52,44,000 | 1891 | 1,44,61,000 | 1,53,54,000 | 1,53,94,000 |
| 1892 | 17,82,70,000 | 14,91,13,000 | 9,10,00,000 | 1892 | 3,60,99,000 | 3,40,19,000 | 1,44,20,000 | 1892 | 1,38,01,000 | 1,43,68,000 | 1,49,97,000 |
| 1893 | 15,27,18,000 | 14,06,80,000 | 15,23,81,000 | 1893 | 2,43,34,000 | 3,30,81,000 | 5,81,95,000 | 1893 | 1,68,03,000 | 1,69,10,000 | 1,57,28,000 |
| 1894 | 25,56,56,000 | 23,58,19,000 | 16,33,54,000 | 1894 | 10,12,59,000 | 8,72,50,000 | 5,00,85,000 | 1894 | 1,33,63,000 | 1,54,32,000 | 1,56,42,400 |
| 1895 | 22,52,96,000 | 19,14,02,000 | 10,76,68,000 | 1895 | 6,83,00,000 | 5,98,26,000 | 1,12,98,000 | 1895 | 1,58,29,000 | 1,45,46,000 | 1,56,99,000 |
| 1896 | 16,50,06,000 | 15,63,62,000 | 7,45,38,000 | 1896 | 2,17,51,000 | 3,76,92,000 | 1,05,37,000 | 1896 | 1,58,25,000 | 2,23,14,000 | 1,09,18,000 |
| 1897 | 13,87,38,000 | 9,25,30,000 | 8,07,64,000 | 1897 | 94,98,000 | 65,21,000 | 81,67,000 | 1897 | 1,68,03,000 | 1,34,62,000 | 1,65,72,000 |
| 1898 | 15,96,26,000 | 14,97,82,000 | — | 1898 | 3,15,52,000 | 2,92,96,000 | — | 1898 | 1,49,85,000 | 1,49,44,000 | — |

Statement II. shows that the proportion of balances in Civil Treasuries to Reserve Treasuries, and to the balances deposited with the Presidency Banks, has been on the average as follows:—

II.

Average Balances 1888-1897 (*inclusive*).

| Months. | Total Balances. Government Treasuries. | Reserve Treasuries. | Presidency Banks. |
|---|---|---|---|
| March - - - | 17,13,82,200 | 3,38,09,200 | 1,52,43,000 |
| July - - - | 15,32,60,800 | 3,58,31,700 | 1,64,82,600 |
| November - - - | 10,50,05,800 | 1,99,31,200 | 1,52,13,200 |

These figures appear to support the generally received impression that the Government deposit a proportionately smaller amount with the Presidency Banks during the busy season than at other seasons. It will be seen that the proportion works out as under:—

| | Total Treasuries. | Reserve Treasuries. | Presidency Banks. |
|---|---|---|---|
| March - - | 100 | 19·44 | 8·89 |
| July - - - | 100 | 23·38 | 10·75 |
| November - - | 100 | 18·98 | 14·49 |

The Finance Sub-Committee are, therefore, of opinion that the present method of disposing of Government Balances does adversely affect the money market, and think that a representation might reasonably be made to Government to increase in proportion to their total funds, their deposits with the Presidency Banks during the busy season. They also think it would be fair to the Presidency Banks if the rate at which Government funds were lent against deposits in times of emergency should be one per cent. below the published minimum rate of the Banks.

W. Parsons,
Secretary.

*Note by the Honourable Sir James Westland, K.C.S.I., on the Management of the Government Balances.*

To facilitate discussion as to the extent to which Cash Balances of the Government may be made available for commercial uses, I put together in this paper some of the considerations which, from the point of view of the Government, bear upon the question.

2. The great difference between the position in this respect of the Treasury in England and that in India may be seen from the following statement, which sets out first the figures relating to England. (The figures are taken from the *Economist*, and though they do not precisely correspond as to date, they are good enough for the present purpose):—

| (In thousands of £.) | Exchequer Balance in the Bank of England. | Cash Balance in the Bank of England. |
|---|---|---|
| End of December 1897 | 3,785 | 19,885 |
| ,, January 1898 | 5,991 | 22,774 |
| ,, February 1898 | 11,907 | 23,606 |
| ,, March 1898 | 9,918(*a*) | 21,662 |
| ,, April 1898 | 5,286 | 22,720 |
| ,, May 1898 | 7,230 | 26,046 |
| ,, June 1898 | 4,800(*a*) | 27,071 |

(*a*) The actuals are not available; this figure is taken by deducting from the total Exchequer Balance one million assumed to be the balance in the Bank of Ireland.

It will be seen from these figures that the Exchequer could at any time, if necessity arose, realise or spend the whole of the balance at its credit without causing the Bank of England to feel any but a temporary difficulty—a difficulty which possibly might not be great enough to cause any steps of sufficient magnitude to affect, or even to come to the knowledge of, the public.

3. Now take the figures for India. They are made up in the annexed tables A and B for each week of the quarter, January to March 1898. It has to be remembered that, according to the contracts with the Presidency Banks, the head "Public Deposits" in their weekly returns is practically synonymous with balance at credit of Treasury; the balances of the High Courts and their officers, and of Railway Companies, and some others, which form a not inconsiderable aggregate of public money, lie outside these amounts and are reckoned in the Bank statements as private accounts. The average of the 13 weekly returns is:—

| (Thousands of Rx.) | Balance at credit of Government. | Cash Balance of the Bank. |
|---|---|---|
| *Head Offices only*— | | |
| Bank of Bengal | 739 | 791 |
| Bank of Bombay | 527 | 636 |
| *Head Offices and Branches*— | | |
| Bank of Bengal | 1,576 | 2,019 |
| Bank of Madras | 505 | 951 |
| Bank of Bombay | 873 | 953 |

It will be seen that a demand by Government for the use of its balances would leave the Banks with an utterly insufficient amount of cash for their requirements—would in short deplete both the financial centres and the principal towns in the interior of nearly the whole of their current banking balances.

4. In comparing England with India in this respect there are two features in the comparison which greatly aggravate the position as regards India. First, the balance in the Bank of England, large as it is, is after all only a portion of the available cash in London. The number of Banks in London is legion, and even though the bulk of their available balances may be represented by a deposit account with the Bank of England, yet a large amount on the whole remains in their own possession, and the diminution of the balance in the Bank of England by the whole amount it holds at the credit of the Exchequer would be a small tax upon the whole banking balance of the place. In India this is not the case, the Cash Balance of the Presidency Banks is a much more important factor in Calcutta or Bombay, for the Exchange Banks hold a comparatively small balance in their own coffers, and even that is, it is understood, sometimes an advance from the Presidency Banks. Secondly, the nexus between the Bank of England and the general available cash of the country is infinitely closer than that which exists in the case of the Indian Presidency Banks. The withdrawal of, say, five millions of Exchequer Balance from the Bank of England for the purpose of meeting Government payments due throughout the country might deplete the available

cash of the Bank of England for a week or two, but the amount would speedily flow back again through a thousand different channels, and the cash position of the Bank would be as strong as ever. In India, on the other hand, payments of the kind do not flow back till after a considerable time, and partly do not come back at all. A war on the frontier, a famine in a province, or heavy expenditure upon railways will absorb large amounts of cash, part of which dribbles back slowly, and part of which for practical purposes never comes back at all.

5. These considerations introduce great difficulty into the management of the Government Balances in India. It is not merely that the Government are obliged to have close regard to the demands that are coming upon them in respect of the payments due on Government account during the next few months, but that they are obliged to have regard to future commercial demand also. Just as the Directors of the Bank of England or of the Bank of Bengal, when they anticipate a strong commercial demand, would create a position of great danger if they were merely to say: "We have so many millions, or so many lakhs, in our Treasure chest, and there "is therefore no use of our interfering with the demand; let us go on giving out "money as long as we possess any," so the Government in India is bound to carefully guard its balances against depletion brought about either by the payments which it has in due course to meet, or by too sudden withdrawal and dispersal through the channels of commercial demand. The above-imagined policy on the part of the Bank Directors would inevitably bring about a crisis in a very short time, and carelessness of management of the same kind—a concession to immediate commercial demand, without having any regard to the future—would bring a crisis on the money market in India, much more severe and much more rapid by reason of the smallness, the almost non-existence, of any margin to fall back upon.

6. This position of responsibility is forced upon the Government in this country, not of its own will, but because it is accepted by the Banking and the Mercantile Community as the monetary system of India. The whole commerce of the country is made to depend upon the Government Balances; and the whole responsibility for the maintenance of an available Cash Reserve in India being thrown upon the Government it is taken for granted that if there is a monetary stringency, it is due to the deliberate action of the Government. When Bank Directors, to meet the occasion I have been describing, put up the rate of discount; they are said to do what is wise and proper, both in their own interests and in those of the Commercial Public; when the Government being in India in a similar position takes similar measures, it is considered to be deliberately causing an undue stringency of the money market.

7. It is not infrequently alleged in the public press and elsewhere that the Government of India, in their manipulation of Government Balances and of Council Bills, systematically pursue this policy of creating for their own purposes a stringency of the kind described. They have more than once had occasion to give this theory explicit denial. Some important papers on the subject were published in the *Gazette of India* of 23rd February 1889 (page 115, &c.), which were intended to show that the one endeavour of the Government in managing their balances was to make things as smooth for the money market as it was possible for them to be, consistently with a system under which the Banks kept very little available money of their own, and depended for their immediately available resources almost entirely upon the margin of funds which the Government kept against possible administrative demands, and which are necessarily hypothecated to public necessities of the kind. For example, the weekly financial article in the *Pioneer*, referring to the transactions of the second half of September last, stated that "Government has been busy reducing its balances with "the Bank of Bengal and the Bank of Bombay." The real fact, so far as Calcutta is concerned, was that Government during that fortnight paid 50 lakhs of Council Bills out of its balance in the Bank of Bengal (a matter which may be described as being within public knowledge) and the diminution of Government Balance which is the natural and inevitable consequence of the transfer of 50 lakhs from the Government Balance to that of the Exchange Banks was thus quoted as evidence that the Government was withdrawing its balances from commercial use! It will thus be seen that the criticism under reference contains exactly the mistake which was pointed out in paragraphs 22 and 23 on page 124 of the above quotation from the *Gazette of India*, and that the so-called artificial reduction of Government Balances at the Banks is nothing more or less than the issue of the amount to the public in the form of Council Bills. As a matter of fact, not a single rupee was withdrawn from the Bank to the Reserve Treasury during the latter half of the month of September.

8. It may be mentioned as regards the Government Balances at the Presidency Banks that for the express purpose of preventing any manipulation of them either in the direction of stringency or of the opposite, they are worked upon a purely mechanical system. A maximum and a minimum limit are fixed, both very much in

excess of the minimum stipulated in the contract with the Banks; and the rule is laid down that when the balance is above the maximum the responsible account officer withdraws a certain amount into the Reserve Treasury; when it falls to or below the minimum he passes money into it from the Reserve Treasury. This rule is departed from only (1) when the Government are raising a loan, and, in order to let it fall easily on the market, allow the Presidency Banks to retain a nominally excessive Treasury Balance it may be regarded as nominal, because the transaction is the result of a credit to Government on the Bank's books by debit to advances on Government Securities, and the Bank for the moment does not really possess any funds available in cash against it; (2) when the general balance is so severely depleted that for the time the Government cannot spare funds from the District Treasuries to maintain the usual standard of Cash Balance in the Presidency towns. There is, therefore, so far as the Bank balance is concerned, no manipulation for the purpose of creating stringency or of affecting the rate of exchange.

9. To proceed now to the question of Council Bills. It seems almost a truism to say it, yet it seems necessary to call it to mind that the amount of Council Bills that can be issued by the Secretary of State is strictly limited. The belief that the Government of India refuse to place their funds at the disposal of the Banks is certainly founded in some cases on the mere fact that the Secretary of State has not issued bills for the whole amount required for the payment of the balance of trade. The amount which it is possible to draw in a year may, for ordinary times, be reckoned thus:

| | Rx. |
|---|---|
| Surplus of revenue in India over expenditure in India, including expenditure on Capital Account - - | 23,000,000 |
| Money raised by loan in India for Capital Expenditure so far as it is not spent in India, a maximum of - | 3,000,000 |
| Total available - - - | 26,000,000 |

These figures vary of course from year to year, but it must be clear that, whatever the figures are, they limit the amount for which the Secretary of State may draw.

10. Now, as pointed out at length in the papers of 1889 which have been already quoted, the minimum balance with which it is possible to carry on the business of the Government in India is about eight crores; this eight crores including the balances at credit in the Presidency Banks and their branches. The balances went down to that figure and below it in the end of the year 1896, and again in the end of 1897; that is to say, in both of these years the Secretary of State drew, and the Government of India paid out, even more than was consistent with safety; the Secretary of State could not have drawn more for the simple reason that the Government of India had no funds wherewith to pay. So anxious were the Government to supply the money market with a full amount of Council Bills that in December 1896 special legislative measures were taken to add to the Cash Balances two crores of rupees out of Currency Reserve, and this enabled the Secretary of State to enhance his drawings by that amount. And again in January 1898 a special law was passed to enable the Secretary of State, if necessary, to draw Council Bills against the Currency Reserve. In the present year, 1898-99, the Council Bill programme was again based on the calculation that the Government should place at the Secretary of State's disposal, for drawings, everything they could spare subject to the condition of about eight crores remaining in the Cash Balances at the minimum period. The prospects as regards balances were much improved by better revenue, and this fact was communicated to the Secretary of State in July and again in September for the express purpose of enabling him to enhance his drawings up to the limit of the capacity of the Government to meet them; and he enhanced them accordingly. In this also there is ample evidence that the policy of the Government throughout is the very opposite of seeking to raise exchange by causing stringency. They have consistently done their best to place at the disposal of the market every surplus rupee they can spare.

11. The Government, in truth, cannot undertake to finance not only the administration of the country, but its trade and commerce also. Accordingly, when commerce finds a deficiency of available funds, the cause of the deficiency should be sought for in the scarcity of banking capital and not in some action of the Government, which is expected with resources that are often barely sufficient to meet the financial requirements of its own administration, to supply also all that is wanted for the movements of two hundred crores of imports and exports.

12. One difficulty in the regulation of Council Bill drawings lies in the fact that the revenue of Government does not come in equally during the year. This is, of course, a necessity in a country where so much of the revenue is land revenue, and has to be collected at the time when the revenue payers can most easily afford to pay it, viz., the time of harvesting and disposing of their crops.

The following is a rough estimate of the distribution, through the year, of the 26 crores which, as above mentioned, become available for drawings ; the three crores of debt are taken as received half in July and half in August :—

| | In thousands of Rx. | | In thousands of Rx. |
|---|---|---|---|
| April | 600 | October | 300 |
| May | 1,900 | November | 700 |
| June | 3,000 | December | 2,500 |
| July | 2,500 | January | 5,500 |
| August | 1,300 | February | 3,100 |
| September | 00 | March | 4,600 |
| | | Total | 26,000 |

13. Now, if the Secretary of State could distribute his drawings after the above fashion (or rather take the figures a month later so as to allow the excesses of revenue to be brought down to the Presidency towns to meet his bills), the result would no doubt be that our excess Cash Balances (that is the surplus over what is required for treasuries that are not in charge of Banks) would be wholly, or nearly so, at the disposal of commerce. But this is more a theoretical possibility than a real one. As already explained, there are no funds for Government to fall back upon if it surrenders to commercial uses its own Cash Balances and then suddenly finds that it must alter its programme of revenue and expenditure. There have been two crises of that kind within the last two years. The first was in October 1896, when the rains failed and prospects of famine suddenly made their appearance in India. It was realized that the first and necessary step was to make large remissions of revenue at once ; this came upon the Government just as the balances were descending to their minimum, and there was no remedy but to call upon the Secretary of State immediately to suspend his drawings, which were being as usual so regulated as to leave no margin in December. The second was in the outbreak of frontier warfare in August and September 1897, when again the Government were obliged to stop the Secretary of State's drawings in order that they might have money to expend on the necessary military operations.

14. It is not possible for the Government therefore, dependent as they are upon their own resources, to carry on the administration with their balance continually hovering about eight crores. They can afford the risk of letting it run down to eight crores in November and December, when it is known that they will be amply in funds again when the revenue comes in in January. But if they had to keep to one figure all the year round, they would not be safe under a minimum of eleven crores (that is to say a continual margin, against possible sudden claims, of three crores). Thus the proper way of describing the policy under which the margin of money might be placed at the disposal of commerce would be "Reckon Rx. 11,000,000 as your minimum current balance ; but inasmuch as you can stand the risk of letting it run down for a month or two, but not longer, to Rx. 8,000,000 give commerce the advantage for that month or two of the Rx. 3,000,000 you can thus spare."

15. This is really not very far different from the course actually followed ; at all events, the argument shows that the money withheld from possible utilisation by commerce is only the excess which is held over Rx. 11,000,000 ; and that it is not possible, from a practical point of view, for the for the Government to accept as a rule of working : "Eight crores is your necessary minimum, and all that you hold in excess of that should be regarded as available for commercial use." In short, eight crores is not a working minimum ; it is a point of danger which can be tolerated if it is to last only for a month or two ; but which might at any time land the Government in disaster, if they tried to work with it for a longer period.

For example, I find that from October 1896 to December 1897 there were only two months in which the Cash Balance was over Rx. 12,000,000.

16. The distribution of Council Bills over the twelve months remains entirely in the hands of the Secretary of State ; the Government, in India, give him from time to time their recommendations, and especially advice as to the amount they can make available for his drawings ; but as the primary object of the Council Bills is to place him in funds for the expenditure which he has to undertake, they leave it to him to consider when drawings may be eased off for want of commercial demand, or increased to meet commercial demand. At the same time the Government are quite aware that the policy of the Secretary of State in the matter is the same as their own, that is, to draw during the twelve months as much as they can meet. The considerations herein set out will show that the utmost the Secretary of State could do, if he were to neglect in regulating his drawings every consideration but that of momentary commercial convenience, would be that he might occasionally be a crore or two ahead of his

drawings as he regulates them on the present system, at the risk of having to pull up after a month or two in order to allow the resources available in India to come up to his demands upon them. The Government pronounce no opinion as to whether it is convenient for commerce to have a crore a week placed at its disposal in February to April, and then have it cut down to 12 or 15 lakhs a week in May. Of course nothing that the Secretary of State can do will increase the total of his drawings over the twelve months.

17. Having thus placed in the hands of the Secretary of State the regulation of the drawings of Council Bills, the Government naturally consider themselves precluded from interfering with his operations by advancing money, even on interest, to the Presidency or other Banks in India. Occasionally, but very rarely, short loans of the kind are made, but it is only for the relief of temporary difficulties. The last occasion on which a proposal of the kind was made was as follows. In April last the Bank of Bombay, whose rate at the time was 13 per cent., asked the Government to advance 25 lakhs to it, for a short time, at 6 per cent. This the Government either formally declined, or were on the point of declining, when the proposal was altered into one to borrow at Bank rate. Within three or four days, however, the stringency of money was relieved, the Bank rate gave way, and it was considered that the necessity for any extraordinary measure had ceased.

J. WESTLAND.

January 1899.

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A.

Statement showing the amount of Public Deposits and Cash Balances at the Head Offices of the three Presidency Banks during the first 13 weeks of the year 1898.

(In thousands of rupees.)

| Weeks. | Public Deposits. | | | | Cash Balances. | | |
|---|---|---|---|---|---|---|---|
| | Bank of Bengal. | Bank of Madras. | Bank of Bombay. | Total. | Bank of Bengal. | Bank of Madras. | Bank of Bombay. |
| 1st week - | 92,94 | 19,03 | 66,78 | 1,78,75 | 68,19 | Not separately given. | 55,99 |
| 2nd week - | 1,01,12 | 24,12 | 50,39 | 1,75,63 | 1,01,12 | | 91,16 |
| 3rd week - | 82,21 | 25,88 | 53,45 | 1,61,54 | 77,40 | | 91,05 |
| 4th week - | 62,00 | 28,58 | 51,84 | 1,42,42 | 92,99 | | 76,00 |
| 5th week - | 54,39 | 26,01 | 48,67 | 1,29,07 | 69,41 | | 46,84 |
| 6th week - | 69,52 | 22,73 | 49,88 | 1,42,13 | 66,31 | | 58,50 |
| 7th week - | 68,87 | 22,02 | 52,71 | 1,43,60 | 69,79 | | 36,95 |
| 8th week - | 74,18 | 22,09 | 42,49 | 1,38,76 | 80,77 | | 56,78 |
| 9th week - | 80,83 | 19,04 | 44,38 | 1,44,25 | 77,77 | | 33,96 |
| 10th week - | 76,17 | 26,16 | 51,33 | 1,53,66 | 86,30 | | 63,99 |
| 11th week - | 57,62 | 25,40 | 55,44 | 1,38,46 | 77,50 | | 69,19 |
| 12th week - | 74,35 | 26,88 | 66,46 | 1,67,69 | 83,79 | | 79,41 |
| 13th week - | 67,15 | 18,33 | 51,72 | 1,37,20 | 77,63 | | 67,29 |
| Weekly average for the 13 weeks | 73,95 | 23,56 | 52,73 | 1,50,24 | 79,15 | | 63,62 |

B.

Statement showing the amount of Public Deposits and Cash Balances at the three Presidency Banks and their Branches during the first 13 weeks of the year 1898.

(In thousands of rupees.)

| Weeks. | Public Deposits. | | | | Cash Balances. | | | |
|---|---|---|---|---|---|---|---|---|
| | Bank of Bengal. | Bank of Madras. | Bank of Bombay. | Total. | Bank of Bengal. | Bank of Madras. | Bank of Bombay. | Total. |
| 1st week - - | 1,70,93 | 28,69 | 82,74 | 2,82,36 | 2,37,17 | 86,87 | 85,34 | 4,09,38 |
| 2nd week - - | 1,69,31 | 36,88 | 65,90 | 2,72,09 | 2,43,39 | 90,12 | 1,13,07 | 4,46,58 |
| 3rd week - - | 1,48,43 | 39,91 | 71,48 | 2,59,82 | 2,10,41 | 93,58 | 1,18,53 | 4,22,55 |
| 4th week - - | 1,36,13 | 57,12 | 79,36 | 2,72,61 | 2,17,92 | 1,08,56 | 1,16,35 | 4,42,83 |
| 5th week - - | 1,54,45 | 55,48 | 73,17 | 2,83,10 | 2,16,80 | 1,02,28 | 82,60 | 4,01,68 |
| 6th week - - | 1,61,12 | 49,86 | 79,87 | 2,90,85 | 2,25,42 | 92,00 | 87,82 | 4,05,24 |
| 7th week - - | 1,36,68 | 43,11 | 75,35 | 2,55,14 | 1,71,67 | 80,78 | 67,47 | 3,19,92 |
| 8th week - - | 1,49,83 | 53,55 | 77,38 | 2,80,76 | 1,76,91 | 93,06 | 91,42 | 3,61,39 |
| 9th week - - | 1,70,20 | 50,40 | 75,10 | 2,95,70 | 1,82,80 | 88,69 | 69,48 | 3,40,97 |
| 10th week - - | 1,73,42 | 56,64 | 88,16 | 3,18,22 | 2,05,88 | 98,12 | 1,07,06 | 4,11,06 |
| 11th week - - | 1,38,93 | 61,15 | 1,04,48 | 3,04,56 | 1,71,41 | 96,08 | 1,06,94 | 3,74,43 |
| 12th week - - | 1,65,80 | 66,37 | 1,37,68 | 3,69,85 | 1,83,54 | 1,01,86 | 1,04,42 | 3,89,82 |
| 13th week - - | 1,73,68 | 57,82 | 1,24,89 | 3,56,39 | 1,81,20 | 1,04,56 | 88,91 | 3,74,67 |
| Weekly average for the 13 weeks - | 1,57,61 | 50,53 | 87,35 | 2,95,49 | 2,01,89 | 95,12 | 95,34 | 3,92,35 |

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Bengal Chamber of Commerce,
Royal Exchange Building, Calcutta,
11th January 1899.

A deputation, nominated by the Committee of the Chamber, waited upon the Hon'ble Sir James Westland, K.C.S.I., the Finance Member of His Excellency the Governor-General's Council, at the office of the Legislative Department of the Government of India, this day, to confer with him upon the question of the management of the Government Cash Balances.

The deputation consisted of the following gentlemen :—

The Hon'ble Mr. M. C. Turner (President of the Chamber).
The Hon'ble Mr. Allan Arthur.
Mr. Reg. Murray.
Mr. W. Parsons, Secretary.

Mr. A. Rawlinson, who had also been nominated as a member, was unable to attend.

The deputation was received by the Hon'ble Sir James Westland and Mr. H. H. Risley, C.I.E., Officiating Secretary to the Government of India in the Finance and Commerce Department, at 3 o'clock p.m.

Sir James Westland in opening the discussion said :—

Gentlemen,—Before I ask you to say anything with respect to the memo. I have prepared, I would ask your permission to make one or two remarks with regard to the papers the Committee of the Chamber have sent to me. The object of the Sub-Committee of the Chamber have in compiling the figures they give is to show, as they state at the end, that "the figures appear to support the generally received impression "that the Government deposit a proportionately smaller amount with the Presidency "Banks during the busy season than at other seasons."

That statement is based upon the figures set out in the Report showing that on the average at the end of March 152 lakhs of rupees have been placed with the Presidency

Banks; at the end of July 164 lakhs, and at the end of November 152 lakhs. These figures, of course, are quite correct, but there is one thing to be borne in mind with respect to them. I pointed out in my memo. that when loan money was being raised by the Government it was necessary for certain reasons to leave very large nominal balances with the Banks. Such balances are regarded as nominal, because the transaction is the result of a credit to Government on the Bank's books by debit to advances on Government Securities and not of an actual receipt of cash by the Banks. At that time we always make arrangements with the Banks that money shall be left with them, and that we shall not call upon them, except gradually, to pay up the money which they showed to be at our credit on the accounts. The figures for July, if you refer to them, include two very large figures—one in 1888—195 lakhs; and the other in 1896—223 lakhs. You will see that these figures are very much in excess of the amounts that were with the Banks at any other time. Now I have made enquiry with reference to these figures, and I find that taking the two Banks, the Bank of Bengal at Calcutta, and the Bank of Bombay at Bombay, in the month of July 1888, the two Banks received between them 268 lakhs. In 1896 the amount they received was 247 lakhs. On these two occasions these very large sums were left to their credit and they were not normal balances at all. They are the balances which were left in their hands with reference to that special arrangement which it is always necessary to make. I find that if these two large figures are left out of the balances in the Presidency Banks as stated for July, the second statement of the Sub-Committee would show 152 lakhs for March, 138 lakhs for July, and 152 lakhs for November, so that the conclusion would be exactly opposite to that drawn by the Sub-Committee, as the Balances in July would be less than is customary in March and November. But I think if you take all the figures, without taking averages, you will see that they bear out what I say in my Note that practically the balances which we hold at the Presidency Banks are steady. We aim at maintaining them at a particular figure. We are not bound to do so, but it is a sort of understanding between ourselves and the Banks. They do not vary greatly.

Mr. Murray. All the year round?

Sir James Westland. Yes. I think if our monthly statement which is sent to the Chamber is looked at, it will be seen that the balances are a fairly steady amount. It varies somewhat, but is rarely as low as 140 laks, or as high as 190 lakhs, but as I say our policy is to maintain a pretty considerable and a fairly steady balance with the Banks. One of the figures shown in the Statement is the balance of November 1896. It went down as low as 109 lakhs. I do not know if you remember the circumstances of 1896. I do very well. At that time our total Cash Balances were down to something like 7½ crores. I know I was very anxious at that time, because I had made arrangements, in coming down from Simla to Calcutta, to go to Bombay and to one or two other places, but I was obliged to come straight down to Calcutta on account of my anxiety connected with the lowness of the balances. But with the exception of that extremely low figure, which was entirely due to the depletion of our General Balances at the time, I think the statement drawn up by the Sub-Committee of the Chamber shows that we maintain a steady balance with the Banks. Although we are not obliged to maintain this steady balance, we wish to maintain it in the absence of any special circumstances. There is one other point I wish to mention. By the last mail I obtained from home a copy of the evidence given by Lord Northbrook before the Committee of Enquiry now sitting in London. It would be rather a long business for me to read out the answer he gave to the Committee when he was asked about this very question of the Government balances, but here is part of what he said:—

> "In a crisis in India you want rupees, you want the actual money for payments up country. I can give the Committee an instance of what happened to me in connection with this particular subject. In the year 1874 there was a famine in Bengal, and in order to feed the people we had to buy rice in Burma and send it to Bengal. In order to get the rice we had to pay hard coin, rupees, for it. The banks then had the full use of the Government Balances, and the Bank of Bombay had at that time more than a million rupees—a million and a half, I believe—of the Government balances. In order to pay for the rice, we wanted some of this money. When we asked the Bank for it, we had the greatest difficulty in getting it. The Government of Bombay objected, and it was only after considerable correspondence, and by insisting upon getting our money that we got at last about half a million of the million and a half that they had of our balances."

This subject was also mentioned in the Budget Debate in 1889. Sir David Barbour then quoted the remonstrance which the Government of Bombay sent in, which was to the effect that if the Government withdrew their balance from the Bank of Bombay the Bank would have to call in the sums due from the Exchange Banks, and there would be a general panic and serious danger of stoppages.

Lord Northbrook quotes from the despatch. He says:—

"It was so serious a condition of things for the Government of India not to be able to get their money when they wanted it, that we addressed the Secretary of State on the subject, and the correspondence is given in the evidence published in the first Report of a Commission now sitting on Indian expenditure at at Question 8258. We said:—'We have been much impressed with the 'consideration that the effect of the existing agreements with the Banks 'which compels us to place all the Cash Balances belonging to Government 'in their hands, leads to consequences which may be very inconvenient, if not 'worse, both to Government and to trade. The only use of these balances to 'Government is that they may be made available the moment the public service 'requires them. We have had no difficulty in regard to the balances in the 'hands of the Banks of Bengal and Madras; the Bank of Bombay, however, 'protested against meeting drafts upon it, and on the urgent representations 'of the Governor of Bombay, we were obliged, on the 29th January, to allow 'a month's time before drawing. The Bank of Bombay, accustomed to high 'Government balances, and relying on the maintenance of these balances, had 'so employed them that they were practically locked up; for had we insisted 'on withdrawing them more suddenly, we should have done so in the face of a 'warning that we should produce a commercial crisis, and therefore, for a 'time, the Government balances at Bombay were useless for the purposes of 'the Government.' The upshot of it all was that an alteration was made, and at our recommendation the Government now hold about two crores in the Reserve Treasury. They are not bound now to keep the whole of their balances in the Banks, and they keep two crores actually in their own hands, which they can use on an emergency. I do not think it is safe for the Government of India not to have the absolute command of two crores of rupees."

To a subsequent question Lord Northbrook answers:—

"8451. At each Bank do you mean?—No, two crores altogether. I do not think it is at all an unreasonable amount, and it is not safe to have less. The Government of India are in quite a different position to the Government of England. The Government of India, if they want money, could not get it in India to any considerable extent, and if they tried to get it and failed, it would bring them into great discredit. Therefore, I do not think the Government should be bound to keep the whole of their balances in the Banks. It is not, in my opinion, the business of the Government of India to finance Indian Trade; it is the business of commerce to finance Indian Trade. At the same time I do not see why the Government of India should not to any reasonable extent assist trade by allowing the use of their balances by the Presidency Banks with proper precautions; but I want to point out that it is not safe to put the whole of the balances in the hands of the Banks, judging by the experience that I myself have had."

Well, Lord Northbrook gives the figures of our requirements at two crores of rupees My Note, which was written before I knew Lord Northbrook's opinion, puts it down at three crores. But it must be remembered that Lord Northbrook's experience is based on 1874, and since then the area of our operations has very much increased. Then there is another thing. Lord Northbrook only had a single contingency in contemplation. In 1897 we had two contingencies. We had a famine, and on the top of that came the Frontier War, so that we had two calamities to meet at the same time, and two heavy demands. Then, I want to point out with reference to this remark of Lord Northbrook, *viz*:—

"The Government of India are bound to see that they have the command of a certain sum of money without putting it in the power of the banks to tie it up even for a limited time. I am speaking about those two crores which are kept in the Reserve Treasury. With regard to the rest of the balances beyond what is required to work the Finance of India, I do not see why the greater portion should not be in the hands of the Presidency Banks."

The practical difficulty in my mind is this: that as long as we have a considerable balance in the Reserve Treasury, the fluctuations of balances which are caused by very large demands for the Secretary of State's Bills, or for payments to meet famine requirements, or a sudden outbreak of war, will be met from the Reserve Treasury. The Banks know perfectly well that, so long as we have got a balance in the Reserve Treasury, we shall not come down on them for the balances we have left with them. But if we make it a rule to hand over to them the balances in excess of a given amount—either two or three crores—it is obvious that any sudden demand will fall upon the Banks and not upon the Reserve Treasury.

Mr. Mufray said that upon that point the Bengal Chamber had always been in agreement with the views expressed by Sir James Westland. The speeches made by

Mr. Robert Steel, and Sir Alexander Wilson, in the Imperial Legislative Council, were in favour of those views, and he did not think the opinion of the Chamber in that respect had changed. It was only in regard to the proportion of the funds that they thought some alteration might possibly be made. The point the Committee of the Chamber laid stress upon was that during the months, December to March, when the Government was taking most money from the public, it so happened that the public required most money for harvest operations. The money was collected by the Government at precisely the time when it was most urgently wanted. The idea was that during that time the amount of the balances with the Presidency Banks should be temporarily increased. It was the collection of the Government revenue during those few months that really caused the stringency.

Mr. Turner said that they only wished to ask Government to come to the assistance of trade at times of great stringency in the money market. It appeared to the Committee of the Chamber that more assistance might be given to trade by the Government at the busy season of the year. He thought the contingency of people being unable to raise money upon Government paper should be avoided, if possible, as it was damaging to the credit of the Government. It was probable that such assistance would only be required so long as exchange remained in its present position. When exchange became fixed the Exchange Banks would probably bring out money.

Sir James Westland enquired what sum, in the opinion of the deputation, would be required to relieve the stringency.

Mr. Murray replied that it would not be a large sum, probably an extra crore, or one and a half, or even two crores.

Mr. Arthur said that he understood the fixed maximum and minimum for Government deposits with the Presidency Banks were the same all the year round, and enquired why the same figures should be fixed for the slack business season when Government balances are low as for the busy season when Government balances are large. He thought that Government might so arrange that their balances with the Presidency Banks should be increased during the busy season, seeing that not only do trade demands for accommodation increase at that time, but the supply of money, as pointed out by Mr. Murray, was decreased at that period by large withdrawals of currency from circulation by Government.

Sir James Westland said that, as he understood the suggestion, it was that the Government should, at the beginning of the busy season lend to the Presidency Banks a certain sum of money which would be recalled at the end of the busy season. The Government could not consent to an open credit on which the Banks might operate at their convenience, and any loans of the kind would have to be made under conditions regarding repayment upon fixed dates. He himself doubted whether, if he were to go to the Bank of Bengal in January and offer them say, 40 lakhs to be returned in April, they would accept the money and pay interest on it for the whole period. He thought the interest demanded in such a case should be at the rate of one per cent. below the minimum published Bank rate, as suggested by the Sub-Committee.

Mr. Turner thought the Presidency Banks would take the money for fixed periods of say three months. Loans were made for one month, or two months, or three months, and he could not see why the Presidency Banks should have any objection to the Government stipulating that the money must be returned within three months. His idea was that the money was not really required until the Bank rate had reached 10 per cent.

Mr. Arthur said that by the Government lending, say, 40 lakhs to the Presidency Banks, the loanable capital of the country would be increased by that amount. The loanable capital of the country was not increased by the sale of Council Bills.

Sir James Westland agreed that the sale of Council Bills did not increase the capital of the country, because merchants only got out the Bills for the purpose of meeting immediate demands upon them. The money obtained was at once distributed all over the Mofussil.

Mr. Arthur observed that the treatment of the Treasury Balances was, in his opinion, a minor matter, as compared with the question of Government coming to the assistance of commerce in a time of crisis. With reference to the statement in Sir James Westland's Memorandum, paragraph 14, from which it appeared that eleven crores were necessary as a minimum, *i.e.*, there should be a "continual margin against a possible sudden claim of 3 crores," the Government of India had declined to advance to the Bank of Bombay last April 25 lakhs against Government paper. Mr. Arthur read an extract from Mr. Merwanjee Dalal's evidence before the Currency Committee, describing the extreme stringency in Bombay at that time, and stated that on the 1st of April the Treasury Balances amounted to Rs. 15,96,95,000; on 30th April they were Rs. 13,69,73,000, and they did not fall below Rs. 12,80,00,000 until the end of October. He was of opinion that, under the circumstances, the small accommodation asked for, viz., a quarter of a crore, might have been granted.

Sir James Westland replied that the substance of the correspondence with the Bank of Bombay had been set out in his memorandum, placed in the hands of the

Chamber of Commerce. The negotiation had practically dropped, because the Bank rate fell and money became easier, a few days after the proposal was made to borrow the money. He could not undertake to say whether if this had not been the case, the loan would have been granted or refused by the Government.* He said that, as a matter of fact, he had on one or two occasions made loans to the Presidency Banks—usually on the deposit of Government Paper.

Mr. Arthur observed that at a time of crisis in England it was open to the Government to suspend the Bank Act, but in India there appeared to be no safeguard in a crisis. In India where the Currency was inconvertible and therefore inelastic, the necessity of some method of assisting commerce at a time of excessive need was all the greater.

Sir James Westland said that there had never been a crisis sufficiently acute in India to necessitate such a step as the suspension of the Bank Act being taken. The issuing of Notes in the Currency without receiving an equal amount of coin into the Reserve would be equivalent to the suspension of the Bank Act in England.

Mr. Murray observed that the Exchange Banks were short of money at the busy season of the year by reason of all their resources being locked up in produce afloat. They had not withdrawn money from the foreign trade of India. All they had done was to put that money into sterling form. The money was used for exactly the same purposes as before.

Sir James Westland said that formerly the Exchange Banks used to send out considerable quantities of money to India where it was held in the shape of rupees, but that this was not done now, as the Exchange Banks only got out Council Bills, as they actually wanted them to pay for export bills.

Mr. Murray pointed out in reply to this that the foreign trade had increased so considerably that the Exchange Banks had to devote their resources almost exclusively to it, and this was evidenced by the fact that Local Banks were now rising to finance the local business which the Exchange Banks had been forced to abandon.

After some further discussion, chiefly with reference to the course of action followed by the Exchange Banks, Sir James Westland said that the Deputation would of course understand that it was impossible for him to give a final answer upon the representations laid before him. They involved a question of policy which had been the subject of instructions by the Home Government, and were at the present moment under consideration by the Currency Commission; and any representations which had been made on the subject, would require to be laid before the Secretary of State. He had little doubt that the Government of India would be willing to make a representation to the Secretary of State in the sense indicated by Mr. Arthur, and propose for consideration that a definite amount might be considered available for loans to the Presidency Banks during the months of January, February, and March, when money was being withdrawn from the market by heavy collections of revenue and the Government Treasuries were full. He would lay the matter before the Government of India with this object in view.

Mr. Murray said that the principle on which the Presidency Banks in India regulated their Cash Balances was much the same as that observed by the Bank of England. With the exception of the last two or three years when the Bank of England cash has been abnormally large, the proportion of their cash to liabilities has, on the average, been similar to that of the Presidency Banks in India.

Mr. Turner having thanked Sir James Westland for affording the representatives of the Chamber an opportunity of discussing the question with him, the Deputation withdrew.

W. PARSONS,
Secretary.

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**Despatch to Government of India, No. 87 (Financial), dated India Office, London, 4th May 1899.**

**To His Excellency the Right Honourable the Governor-General of India in Council.**

My Lord,

I have considered in Council your Excellency's letter dated the 2nd of February, No. 30, on the subject of the use of the Government balances in aid of banking resources in India.

2. The question was raised by the report of the Finance Sub-Committee of the Bengal Chamber of Commerce, in which it was stated to have "been the impression "for years that the Government have been sparing of their deposits with the Presidency "Banks during the seasons of greatest pressure, with the object of stimulating "exchange, and lavish with their deposits in the monsoon months, when easy money "has helped them to issue new loans."

* I find on reference to the papers that the Government was on the point of sanctioning the loan, when the Bank rate in Calcutta was reduced from 12 to 11 per cent. (20th April), the price of Government Paper rose and Exchange fell. The Comptroller-General was, accordingly, instructed that in view of these indications that the stringency in the money market had been materially relaxed, it was considered that a loan to the Bank of Bombay was not at present necessary.—J. W.

3. In the note which Sir James Westland wrote in reply, he observed that the Government had more than once had occasion explicitly to deny that they had systematically pursued a policy to create stringency, and he said that there had been no manipulation of the balances to affect the rate of exchange. In order to test how far there was any ground for such a belief, I have caused the cash balances to be examined from the time when the Reserve Treasury was instituted, and the following is the result:—

Average Government Balances with the Presidency Banks or in the District Treasuries, but excluding the Reserve Treasury (in lakhs), on the last day of each month.

| Years. | Busy Season, January to May. | | | Slack Season, June to December. | | |
|---|---|---|---|---|---|---|
| | Maximum. | Minimum. | Mean. | Maximum. | Minimum. | Mean. |
| 5 years, 1878–82 - | 1,242 | 1,055 | 1,144 | 1,224 | 874 | 1,038 |
| „ 1883–87 - | 1,220 | 1,020 | 1,100 | 1,128 | 835 | 952 |
| „ 1888–92 - | 1,316 | 1,106 | 1,183 | 1,245 | 821 | 1,017 |
| „ 1893–97 - | 1,431 | 1,194 | 1,281 | 1,274 | 865 | 1,062 |
| Or | | | | | | |
| 6 years, 1893–98 - | 1,406 | 1,171 | 1,258 | 1,266 | 886 | 1,072 |

It will be observed that the amount in the hands of the Presidency Banks (including that in the district treasuries which is not shown separately), during the busy season is now usually much larger than formerly; and although the amount during the slack season has slightly increased, this may be fully explained by the failure to sell bills on India in some of the recent years. In the recently published report by the Comptroller-General on the state of the Cash Balances during 1897–98, it is pointed out that at the time of the greatest pressure the amounts in the hands of the Presidency Banks were kept at a fairly high level, the reduction being as far as possible effected at the Government treasuries. As to the supposed manipulation of the balances to facilitate the raising of loans, the figures are as follows:—

| | Maximum. | Minimum. | Mean. |
|---|---|---|---|
| Average of 14 years in which Loans were raised - - | 1,276 | 854 | 1,069 |
| Average of 7 years in which Loans were not raised - - | 1,372 | 859 | 1,120 |

4. At the Conference which was held between Sir James Westland and a deputation from the Committee of the Bengal Chamber of Commerce it was admitted that, as had been pointed out by Mr. Robert Steel in 1889, and Sir Alexander Wilson in 1890, when the subject of the management of the Government balances had been discussed in the Legislative Council, any sudden demand for money to meet the exigencies of the Government would fall more heavily on the Banks, if all the balances beyond a limited amount were placed in their hands; but it was suggested that the proportion of the funds at their disposal, and of those retained in the Reserve Treasury might with advantage be altered.

5. In order to meet the wishes of the Committee of the Chamber as far as possible, Your Excellency proposes that, during the months of January to May in each year, when large sums are withdrawn from the public in payment of Government revenue, it may be recognised as part of the ordinary business of management of the Treasury balances, to lend money to the Presidency Banks, in sums not less than 10 lakhs of rupees, at one per cent. below the declared minimum rate of discount of the borrowing bank, which would be required to deposit Government paper as security, and to repay the money at a definite date, in no case later than the 31st May. For such purposes you consider that ordinarily you could spare a crore and a half of rupees without difficulty.

6. I am not sure that I understand the reasons why your Government solicit my sanction to such an arrangement. The management of the cash balances in India is entirely within your discretion. When it was proposed to institute a Reserve Treasury in order to guard against the risk of public inconvenience on the occurrence of an emergency, the Marquis of Salisbury, in his Despatch of the 6th of May 1875, No. 225, though not approving precisely of the suggestions laid before him, left the matter in the hands of the Government of India, observing that it would be competent for the Financial Department either to retain the money so reserved in the Treasury, "or to lend it for short terms under suitable conditions as to interest and security."

7. This expression seems so exactly to cover your proposal, that I have to look further for the grounds on which it is made; and I presume that these are contained in the last paragraph of your letter, in which you observe; "We cannot say that the "proposed facility for borrowing money in India would not in any way interfere "with your Lordship's Council Bill operations." You think, however, that the transfer of part of the demand from the busy to the slack season of foreign trade would not operate disadvantageously, while it would tend to prevent the rate of discount in India from rising so high as in 1897 and 1898.

8. From this point of view it appears to me that the suggested course is open to considerable objection. The remittance to England, at a favourable rate of exchange, of the amount necessary for the discharge of your sterling obligations, is one of the principal points to be aimed at in the management of the balances; and it is therefore desirable to take the utmost advantage of the season when there is the greatest demand for bills on India. The postponement of a portion of the Government remittances might stimulate imports on private account; and it might very likely be found that, when the time arrived for calling in the money due to you, the balance of trade had been to some extent adjusted, and that there was no such necessity for remittances from India during the early summer as you had expected.

9. I think, further, that any general understanding of the nature proposed would have the effect of inducing the commercial community to rely even more than at present on the assistance of the Government, instead of taking steps to enlarge the amount of loanable capital in the country, the scarcity of which seems to have been the chief cause of the high rates of discount in the year 1897-98.

10. In these circumstances I am unable to approve of the proposal that you have laid before me. It is impossible to prescribe any specific amount which must be retained in the Reserve Treasury or be otherwise at the command of the Comptroller-General on short notice, in order to meet not merely the disbursements of your Government in India but also the probable amount of remittances to England; and it is essential that an adequate provision should be made for these purposes. Subject to this being maintained, I see no objection to your lending money to the Presidency Banks on the security of Government paper, at such rate of interest from time to time, and for such periods, as you think best. I am inclined to think that the rate should, as a rule, be not below Bank rate.

I have, &c.,
(Sd.) GEORGE HAMILTON.

## Despatch from Secretary of State for India to Government of India, No. 147 (Financial), dated 23rd December 1910.

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To His Excellency the Right Honourable the Governor General of India in Council.

MY LORD,

Under the decision conveyed in my telegram dated 13th December 1910, the exceptional receipts in 1910–11 due to the high price of opium are to be applied, after allowing for grants to Provincial Governments, to the discharge of temporary debt, but I stated in my telegram of the 19th instant that the discharge will not begin until 1912–13. The explanation of the latter decision is as follows:—

The temporary sterling debt on 1st April next will be as shown in the following statement:—

| Year of Maturity. | Maturing Annually. | To be discharged at Specified Dates. | | |
|---|---|---|---|---|
| | India Bills. | India Bonds. | Debenture Bonds (issued by Madras and Indian Midland Railway Companies; direct liability assumed by Secretary of State in Council on termination of Contracts with Companies). | Total. |
| | £ | £ | £ | £ |
| 1911–12 | 5,000,000 | 500,000 | 1,776,200 | 2,276,200 |
| 1912–13 | | 500,000 | 1,477,600 | 1,977,600 |
| 1913–14 | | 500,000 | 1,281,200 | 1,781,200 |
| 1914–15 | | 500,000 | — | 500,000 |
| 1915–16 | | 500,000 | 407,500 | 907,500 |
| 1916–17 | | 500,000 | — | 500,000 |
| 1917–18 | | 500,000 | — | 500,000 |
| 1918–19 | | 500,000 | — | 500,000 |
| Total | 5,000,000 | 4,000,000 | 4,942,500 | 8,942,500 |

2. On each occasion when any of the India bills shown in the list above become due, the Secretary of State in Council can either discharge them finally or, in accordance with the practice that has been more usual in recent years, can make an issue of bills in replacement. But, when India bonds or debentures mature, there would be strong objections to issuing similar securities in replacement. Provision for the discharge of bonds and debentures is thus required even more urgently than for the discharge of India bills.

3. An amount almost sufficient for repaying the 1,776,200*l.* debentures maturing in 1911–12 has already been raised, the issue of India bonds in October 1910 having been fixed at 4,000,000*l.* for this purpose, and, as you are aware, it is intended to apply to the discharge of the India bonds maturing in the same year part of the proceeds of the permanent loans of the year. But no arrangements have been made to meet the liability for the repayment of debentures and bonds maturing after 1911–12. In these circumstances it will be prudent to hold in reserve—to be used, if necessary, for meeting that liability—the receipts mentioned at the beginning of this Despatch. But the desirability of reducing the amount of

India bills in existence, to which attention was drawn in Lord Morley's Despatch No. 40 (Railway), dated 13th May 1910, will not be overlooked; and, if it is found possible to discharge bonds and debentures maturing after 1911–12 from sources (such as the proceeds of permanent loans) other than the exceptional receipts from opium and to apply those receipts to the discharge of India bills without replacement, this will be done.

I am, &c.,
(Signed) CREWE.

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Telegram from the VICEROY to the SECRETARY OF STATE,
dated 22nd January, 1913.

Your telegram of 6th instant. Use in India of Indian balances and restrictions of Council bills. First, in connexion with possible revision of our agreement with Presidency Banks, a matter which we are still considering, the question has been raised of the balances to be kept with them, whether at the Head Offices or at branches. As the Banks urge that, having regard to increased amount of work performed for Government, they are now entitled to more favourable terms, the question in this connexion should be looked upon as one of remuneration. Also, the Indian Specie Bank, at the same time as they applied to you, sounded us recently regarding a loan from balances in India. With this exception, excluding the representations you mention in your telegram, we have, during the last 10 years, received no formal representations in favour of (1) depositing larger balances with the Presidency Banks, (2) an extension of the practice of special loans to them, or (3) loans to other banks or firms generally. At a recent interview with Sir G. Fleetwood Wilson, the Calcutta Exchange Banks seemed to regard with disfavour the practice of lending on a large scale. In addition, we would remark that, while we are ready, when money is required owing to quite exceptional market stringency, to make advances to Presidency Banks, we have for five or six years past, received no requests for loans of the kind, and this fact has a bearing on the agitation for reserving Indian money for use in India. Secondly, our practice is to keep at the Head Offices of the Presidency Banks the following balances:—

(1.) Bank of Bengal, Rs. 70,00,000 or Rs. 80,00,000.
(2.) Bank of Bombay, Rs. 40,00,000 to Rs. 50,00,000.
(3.) Bank of Madras, a little over Rs. 20,00,000.

As a rule we do not allow the balances to exceed, in the case of (1), a crore, and, in the case of (2), half a crore, and the Banks are liable for interest on excesses over these sums if they object to their withdrawal. On the flotation of a loan, however, in order to allow it to fall easily on the market, the rule is relaxed and caution is observed in withdrawing money, while in special cases, such as the Arbuthnot failure, very high balances are maintained so that a crisis may be avoided. In ordinary cases no amounts are fixed for the balances to be held at the branches of the Presidency Banks, but sometimes, as an encouragement to open new branches, a minimum balance is guaranteed for a certain number of years. With regard to the restriction of Council bills, it has always been urged by Mr. Webb that they should be limited to the amount required to meet your Home charges, and he made representations in September and October 1912 against the increased weekly allotments then being made, on the ground that they prevented the rise of exchange to specie point and interfered with the importation of gold coin and bullion. So far as we can trace, no other representations on this subject have been made.

On the points put to us, we think that, although improvements may be from time to time suggested by experience, the practice now obtaining is generally sound, and, having regard to the absence of complaints over a long series of years, that responsible opinion in this country is in agreement with us.

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STATEMENT A.

## Receipts, Disbursements, and Balances in India and England from 1907–08 to 1913–14.

| | 1907-08. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget. | | | Actual. | | | Increase or *decrease*. | | |
| | India. | England. | Total. | India. | England. | Total. | India. | England. | Total. |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| **A.**—*Opening Balance* | 10,785,000 | 4,313,800 | 15,098,800 | 10,026,900 | 5,606,800 | 15,633,700 | *—758,100* | +1,293,000 | +534,900 |
| **B.**—*Receipts.* | | | | | | | | | |
| 1. Revenue | 74,393,100 | 619,700 | 75,012,800 | 70,284,600 | 718,600 | 71,003,200 | *—4,108,500* | +98,900 | *—4,009,600* |
| 2. Capital received from Railway Companies | 875,600 | 3,825,000 | 4,700,600 | 2,422,300 | 2,240,500 | 4,662,800 | +1,546,700 | *—1,584,500* | *—37,800* |
| 3. Loans issued for the requirements of the current year. | 2,000,000 | 3,500,000 | 5,500,000 | 1,666,700 | 4,500,000 | 6,166,700 | *—333,300* | +1,000,000 | +666,700 |
| 3A. Loans issued in advance for the requirements of the following year. | — | — | — | — | 4,133,000 | 4,133,000 | — | +4,133,000 | +4,133,000 |
| 4. Unfunded Debt (net) | 684,800 | — | 684,800 | 515,500 | — | 515,500 | *—169,300* | — | *—169,300* |
| 5. Deposits and Advances (net)* | 846,300 | *—51,300* | 795,000 | 741,400 | 101,400 | 842,800 | *—104,900* | +152,700 | +47,800 |
| 6. Miscellaneous Remittances (net) | 25,000 | 73,700 | 98,700 | 1,627,100 | *1,587,100* | 40,000 | +1,602,100 | *—1,660,800* | *—58,700* |
| 7. Council Bills and Transfers | — | 18,100,000 | 18,100,000 | — | 15,705,700 | 15,705,700 | — | *—2,394,300* | *—2,394,300* |
| Total Receipts | 78,824,800 | 26,067,100 | 104,891,900 | 77,257,600 | 25,812,100 | 103,069,700 | *—1,567,200* | *—255,000* | *—1,822,200* |
| **C.**—*Disbursements.* | | | | | | | | | |
| 8. Expenditure chargeable to Revenue | 56,278,500 | 18,402,900 | 74,681,400 | 53,231,100 | 18,487,300 | 71,718,400 | *—3,047,400* | +84,400 | *—2,963,000* |
| 9. Capital outlay on Railways and Irrigation Works | 2,693,300 | 8,040,900 | 10,734,200 | 4,676,800 | 7,689,500 | 12,366,300 | +1,983,500 | *—351,400* | +1,632,100 |
| 10. Discharge of Debt | 85,100 | 500,000 | 585,100 | 83,700 | 634,800 | 718,500 | *—1,400* | 134,800 | +133,400 |
| 11. Loans and Advances (net) | 80,300 | — | 80,300 | 1,221,100 | — | 1,221,100 | +1,140,800 | — | +1,140,800 |
| 12. Council Bills and Transfers | 18,103,900 | — | 18,103,900 | 15,220,400 | — | 15,220,400 | *—2,883,500* | — | *—2,883,500* |
| Total Disbursements | 77,241,100 | 26,943,800 | 104,184,900 | 74,433,100 | 26,811,600 | 101,244,700 | *—2,808,000* | *—132,200* | *—2,940,200* |
| **D.**—*Closing Balance* | **12,368,700** | **3,437,100** | **15,805,800** | **12,851,400** | **4,607,300** | **17,458,700** | **+482,700** | **+1,170,200** | **+1,652,900** |

* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve.

## STATEMENT A.—*continued.*

RECEIPTS, DISBURSEMENTS, and BALANCES in India and England from 1907–08 to 1913–14.—*continued.*

| | 1908–09. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | BUDGET. | | | ACTUAL. | | | Increase or *decrease*. | | |
| | India. | England. | Total. | India. | England. | Total. | India. | England. | Total. |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| **A.**—*Opening Balance* | 12,310,200 | 5,109,400 | 17,419,600 | 12,851,400 | 4,607,300 | 17,458,700 | +541,200 | *−502,100* | +39,100 |
| **B.**—*Receipts.* | | | | | | | | | |
| 1. Revenue | 72,818,300 | 620,600 | 73,438,900 | 69,159,800 | 601,700 | 69,761,500 | *−3,658,500* | *−18,900* | *−3,677,400* |
| 2. Capital received from Railway Companies | *−72,900* | 4,900,000 | 4,827,100 | 37,100 | 5,289,800 | 5,326,900 | +110,000 | +389,800 | +499,800 |
| 3. Loans issued for the requirements of the current year. | 2,000,000 | 1,246,000 | 3,246,000 | 1,333,300 | 5,867,000 | 7,200,300 | *−666,700* | +4,621,000 | +3,954,300 |
| 3A. Loans issued in advance for the requirements of the following year. | — | — | — | — | 4,475,000 | 4,475,000 | — | +4,475,000 | +4,475,000 |
| 4. Unfunded Debt (net) | 453,500 | — | 453,500 | 251,400 | — | 251,400 | *−202,100* | — | *−202,100* |
| 5. Deposits and Advances (net)* | 487,300 | 8,000 | 495,300 | 96,900 | 151,900 | 248,800 | *−390,400* | +143,900 | *−246,500* |
| 6. Miscellaneous Remittances (net) | *−1,846,000* | 1,897,200 | 51,200 | *−2,634,500* | 2,357,400 | *−277,100* | *−788,500* | +460,200 | *−328,300* |
| 7. Council Bills and Transfers | — | 18,500,000 | 18,500,000 | — | 12,423,900 | 12,423,900 | — | *−6,076,100* | *−6,076,100* |
| Total Receipts | 73,840,200 | 27,171,800 | 101,012,000 | 68,244,000 | 31,166,700 | 99,410,700 | *−5,596,200* | +3,994,900 | *−1,601,300* |
| **C.**—*Disbursements.* | | | | | | | | | |
| 8. Expenditure chargeable to Revenue | 54,783,400 | 18,609,100 | 73,392,500 | 55,241,400 | 18,925,100 | 74,166,500 | +458,000 | +316,000 | +774,000 |
| 9. Capital outlay on Railways and Irrigation Works | 1,216,100 | 9,047,300 | 10,263,400 | 3,062,900 | 7,999,200 | 11,062,100 | +1,846,800 | *−1,048,100* | +798,700 |
| 10. Discharge of Debt | 84,600 | 865,800 | 950,400 | 175,600 | 865,800 | 1,041,400 | +91,000 | — | +91,000 |
| 11. Loans and Advances (net) | 207,200 | — | 207,200 | 548,200 | — | 548,200 | +341,000 | — | +341,000 |
| 12. Council Bills and Transfers | 17,989,000 | — | 17,989,000 | 11,831,800 | — | 11,831,800 | *−6,157,200* | — | *−6,157,200* |
| Total Disbursements | 74,280,300 | 28,522,200 | 102,802,500 | 70,859,900 | 27,790,100 | 98,650,000 | *−3,420,400* | *−732,100* | *−4,152,500* |
| **D.**—*Closing Balance* | **11,870,100** | **3,759,000** | **15,629,100** | **10,235,500** | **7,983,900** | **18,219,400** | *−1,634,600* | **+ 4,224,900** | **+ 2,590,300** |

* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve.

| | 1909-10. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget. | | | Actual. | | | Increase or *decrease*. | | |
| | India. | England. | Total. | India. | England. | Total. | India. | England. | Total. |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| **A.**—*Opening Balance* | 10,232,600 | 7,698,000 | 17,930,600 | 10,235,500 | 7,983,900 | 18,219,400 | +2,900 | +285,900 | +288,800 |
| **B.**—*Receipts.* | | | | | | | | | |
| 1. Revenue | 73,105,500 | 645,400 | 73,750,900 | 73,882,300 | 711,200 | 74,593,500 | +776,800 | +65,800 | +842,600 |
| 2. Capital received from Railway Companies | 64,700 | 2,400,000 | 2,464,700 | 121,900 | 2,459,400 | 2,581,300 | +57,200 | +59,400 | +116,600 |
| 3. Loans issued for the requirements of the current year. | 1,667,300 | 2,823,700 | 4,491,000 | 1,666,600 | 2,699,600 | 4,366,200 | *−700* | *−124,100* | *−124,800* |
| 3A. Loans issued in advance for the requirements of the following year. | — | — | — | — | 6,370,000 | 6,370,000 | — | +6,370,000 | +6,370,000 |
| 4. Unfunded Debt (net) | 853,500 | — | 853,500 | 783,200 | — | 783,200 | *−70,300* | — | *−70,300* |
| 5. Deposits and Advances (net)* | 803,600 | *−500* | 803,100 | 949,100 | *−103,600* | 845,500 | +145,500 | *−103,100* | +42,400 |
| 6. Miscellaneous Remittances (net) | 37,000 | *−63,400* | *−26,400* | 534,300 | *−248,000* | 286,300 | +497,300 | *−184,600* | +312,700 |
| 7. Council Bills and Transfers | — | 16,200,000 | 16,200,000 | — | 18,006,600 | 18,006,600 | — | +1,806,600 | +1,806,600 |
| Total Receipts | 76,531,600 | 22,005,200 | 98,536,800 | 77,937,400 | 29,895,200 | 107,832,600 | +1,405,800 | +7,890,000 | +9,295,800 |
| **C.**—*Disbursements.* | | | | | | | | | |
| 8. Expenditure chargeable to Revenue | 54,358,100 | 19,362,400 | 73,720,500 | 53,969,900 | 19,122,900 | 73,092,800 | *−388,200* | *−239,500* | *−627,700* |
| 9. Capital outlay on Railways and Irrigation Works | 4,232,400 | 6,832,700 | 11,065,100 | 3,771,600 | 5,747,700 | 9,519,300 | *−460,800* | *−1,085,000* | *−1,545,800* |
| 10. Discharge of Debt | 129,200 | 179,400 | 308,600 | 148,500 | 209,400 | 357,900 | +19,300 | +30,000 | +49,300 |
| 11. Loans and Advances (net) | *−282,800* | — | *−282,300* | *−809,100* | — | *−809,100* | *−526,800* | — | *−526,800* |
| 12. Council Bills and Transfers | 16,064,300 | — | 16,064,300 | 18,796,600 | — | 18,796,600 | +2,732,300 | — | +2,732,300 |
| Total Disbursements | 74,501,700 | 26,374,500 | 100,876,200 | 75,877,500 | 25,080,000 | 100,957,500 | +1,375,800 | *−1,294,500* | +81,300 |
| **D.**—*Closing Balance* | **12,262,500** | **3,328,700** | **15,591,200** | **12,295,400** | **12,799,100** | **25,094,500** | **+32,900** | **+9,470,400** | **+9,503,300** |

* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve.

STATEMENT A.—*continued.*

RECEIPTS, DISBURSEMENTS, and BALANCES in India and England from 1907–08 to 1913–14—*continued.*

| | 1910-11. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | BUDGET. | | | ACTUAL. | | | Increase or *decrease.* | | |
| | India. | England. | Total. | India. | England. | Total. | India. | England. | Total. |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| **A.**—*Opening Balance* | 11,902,400 | 12,739,300 | 24,641,700 | 12,295,400 | 12,799,100 | 25,094,500 | +393,000 | +59,800 | +452,800 |
| **B.**—*Receipts.* | | | | | | | | | |
| 1. Revenue | 74,813,000 | 641,400 | 75,454,400 | 79,706,600 | 975,900 | 80,682,500 | +4,893,600 | +334,500 | +5,228,100 |
| 2. Capital received from Railway Companies | 254,800 | 2,597,500 | 2,852,300 | 80,800 | 2,294,300 | 2,375,100 | *—174,000* | *—303,200* | *—477,200* |
| 3. Loans issued for the requirements of the current year. | 1,000,000 | 2,839,600 | 3,839,600 | 1,000,000 | 3,014,800 | 4,014,800 | — | +175,200 | +175,200 |
| 3A. Loans issued in advance for the requirements of the following year. | — | — | — | — | 2,210,000 | 2,210,000 | — | +2,210,000 | +2,210,000 |
| 4. Unfunded Debt (net) | 1,119,200 | — | 1,119,200 | 1,164,900 | — | 1,164,900 | +45,700 | — | +45,700 |
| 5. Deposits and Advances (net)* | 833,500 | 9,800 | 843,300 | 1,029,000 | 99,700 | 1,128,700 | +195,500 | +89,900 | +285,400 |
| 6. Miscellaneous Remittances (net) | 618,500 | *—58,200* | 560,300 | *—298,900* | 502,300 | 203,400 | *—917,400* | +560,500 | *—356,900* |
| 7. Council Bills and Transfers | — | 15,500,000 | 15,500,000 | — | 23,638,300 | 23,638,300 | — | +8,138,300 | +8,138,300 |
| Total Receipts | 78,639,000 | 21,530,100 | 100,169,100 | 82,682,400 | 32,735,300 | 115,417,700 | +4,043,400 | +11,205,200 | +15,248,600 |
| **C.**—*Disbursements.* | | | | | | | | | |
| 8. Expenditure chargeable to Revenue | 56,004,700 | 19,695,900 | 75,700,600 | 55,203,400 | 19,581,500 | 74,784,900 | *—801,300* | *—114,400* | *—915,700* |
| 9. Capital outlay on Railways and Irrigation Works | 6,564,400 | 6,239,700 | 12,804,100 | 3,548,800 | 5,188,000 | 8,736,800 | *—3,015,600* | *—1,051,700* | *—4,067,300* |
| 10. Discharge of Debt | 128,400 | 3,067,900 | 3,196,300 | 164,100 | 4,067,900 | 4,232,000 | +35,700 | +1,000,000 | +1,035,700 |
| 11. Loans and Advances (net) | *—129,300* | — | *—129,300* | *—750,200* | — | *—750,200* | *—620,900* | — | *—620,900* |
| 12. Council Bills and Transfers | 15,503,900 | — | 15,503,900 | 23,244,800 | — | 23,244,800 | +7,740,900 | — | +7,740,900 |
| Total Disbursements | 78,072,100 | 29,003,500 | 107,075,600 | 81,410,900 | 28,837,400 | 110,248,300 | +3,338,800 | *—166,100* | +3,172,700 |
| **D.**—*Closing Balance* | **12,469,300** | **5,265,900** | **17,735,200** | **13,566,900** | **16,697.000** | **30,263,900** | **+1,097,600** | **+11,431,100** | **+12,528,700** |

* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve.

| | 1911-12. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget. | | | Actual. | | | Increase or *decrease*. | | |
| | India. | England. | Total. | India. | England. | Total. | India. | England. | Total. |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| **A.**—*Opening Balance* | 12,465,500 | 16,055,500 | 28,521,000 | 13,566,900 | 16,697,000 | 30,263,900 | +1,101,400 | +641,500 | +1,742,900 |
| **B.**—*Receipts.* | | | | | | | | | |
| 1. Revenue | 77,228,700 | 806,200 | 78,034,900 | 81,743,400 | 1,092,400 | 82,835,800 | +4,514,700 | +286,200 | +4,800,900 |
| 2. Capital received from Railway Companies | 31,200 | 1,357,500 | 1,388,700 | 49,900 | — | 49,900 | +18,700 | *−1,357,500* | *−1,338,800* |
| 3. Loans issued | 1,333,300 | 3,137,500 | 4,470,800 | 1,333,300 | 2,855,100 | 4,188,400 | — | *−282,400* | *−282,400* |
| 4. Unfunded Debt (net) | 1,123,300 | — | 1,123,300 | 1,815,200 | — | 1,815,200 | +691,900 | — | +691,900 |
| 5. Deposits and Advances (net)* | 376,000 | 700 | 376,700 | 1,697,200 | *−46,600* | 1,650,600 | +1,321,200 | *−47,300* | +1,273,900 |
| 6. Miscellaneous Remittances (net) | *−282,900* | 285,100 | 2,200 | *−529,000* | 578,500 | 49,500 | *−246,100* | +293,400 | +47,300 |
| 7. Council Bills and Transfers | — | 15,825,000 | 15,825,000 | — | 25,070,200 | 25,070,200 | — | +9,245,200 | +9,245,200 |
| Total Receipts | 79,809,600 | 21,412,000 | 101,221,600 | 86,110,000 | 29,549,600 | 115,659,600 | +6,300,400 | +8,137,600 | +14,438,000 |
| **C.**—*Disbursements.* | | | | | | | | | |
| 8. Expenditure chargeable to Revenue | 59,020,100 | 19,911,600 | 78,931,700 | 57,968,700 | 19,957,700 | 77,926,400 | *−1,051,400* | +46,100 | *−1,005,300* |
| 9. Capital outlay on Railways, Irrigation Works, and Delhi. | 4,757,100 | 6,041,500 | 10,798,600 | 4,419,000 | 5,082,700 | 9,501,700 | *−338,100* | *−958,800* | *−1,296,900* |
| 10. Discharge of Debt | 105,700 | 2,776,200 | 2,881,900 | 89,100 | 2,816,200 | 2,905,300 | *−16,600* | +40,000 | +32,400 |
| 11. Loans and Advances (net) | 83,300 | — | 83,300 | *−8,800* | — | *−8,800* | *−92,100* | — | *−92,100* |
| 12. Council Bills and Transfers | 15,825,700 | — | 15,825,700 | 24,929,200 | — | 24,929,200 | +9,103,500 | — | +9,103,500 |
| Total Disbursements | 79,791,900 | 28,729,300 | 108,521,200 | 87,397,200 | 27,856,600 | 115,253,800 | +7,605,300 | *−872,700* | +6,732,600 |
| **D.**—*Closing Balance* | **12,483,200** | **8,738,200** | **21,221,400** | **12,279,700** | **18,390,000** | **30,669,700** | **+203,500** | **+9,651,800** | **+9,855,300** |

* Including Capital Account of Local Boards but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve.

STATEMENT A.—*continued.*

## Receipts, Disbursements, and Balances in India and England, from 1907-08 to 1913-14.

| | 1912-13. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget. | | | Revised Estimate. | | | Increase or *decrease*. | | |
| | India. | England. | Total. | India. | England. | Total. | India. | England. | Total. |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| **A.**—*Opening Balance* | 11,808,200 | 18,320,600 | 30,128,800 | 12,279,700 | 18,390,000 | 30,669,700 | +471,500 | +69,400 | +540,900 |
| **B.**—*Receipts.* | | | | | | | | | |
| 1. Revenue | 78,609,500 | 744,500 | 79,354,000 | 86,082,100 | 970,300 | 87,052,400 | +7,472,600 | +225,800 | +7,698,400 |
| 2. Capital received from Railway Companies | 150,300 | 1,810,000 | 1,960,300 | 50,000 | 495,000 | 545,000 | *—100,300* | *—1,315,000* | *—1,415,300* |
| 3. Loans issued | 2,000,000 | 3,000,000 | 5,000,000 | 2,000,000 | 3,000,000 | 5,000,000 | — | — | — |
| 4. Unfunded Debt (net) | 1,318,700 | — | 1,318,700 | 1,741,400 | — | 1,741,400 | +422,700 | — | +422,700 |
| 5. Deposits and Advances (net)* | 401,000 | — | 401,000 | 960,100 | *—171,500* | 788,600 | +559,100 | *—171,500* | +387,600 |
| 6. Miscellaneous Remittances (net) | *—391,000* | 394,400 | 3,400 | 6,165,400 | *—6,007,800* | 157,600 | +6,556,400 | *—6,402,200* | +154,200 |
| 7. Council Bills and Transfers | — | 15,500,000 | 15,500,000 | — | 25,660,000 | 25,660,000 | — | +10,160,000 | +10,160,000 |
| Total Receipts | 82,088,500 | 21,448,900 | 103,537,400 | 96,999,000 | 23,946,000 | 120,945,000 | +14,910,500 | +2,497,100 | +17,407,600 |
| **C.**—*Disbursements.* | | | | | | | | | |
| 8. Expenditure chargeable to Revenue | 59,390,500 | 20,042,900 | 79,433,400 | 59,176,600 | 20,408,200 | 79,584,800 | *—213,900* | +365,300 | +151,400 |
| 9. Capital outlay on Railways, Irrigation Works, and Delhi. | 5,372,500 | 6,527,200 | 11,899,700 | 4,588,800 | 7,077,300 | 11,666,100 | *—783,700* | +550,100 | *—233,600* |
| 10. Discharge of Debt | 91,300 | 6,477,600 | 6,568,900 | 85,400 | 6,477,600 | 6,563,000 | *—5,900* | — | *—5,900* |
| 11. Loans and Advances (net) | 405,400 | — | 405,400 | 9,300 | — | 9,300 | *—396,100* | — | *—396,100* |
| 12. Council Bills and Transfers | 15,769,000 | — | 15,769,000 | 25,874,700 | — | 25,874,700 | +10,105,700 | — | +10,105,700 |
| Total Disbursements | 81,028,700 | 33,047,700 | 114,076,400 | 89,734,800 | 33,963,100 | 123,697,900 | +8,706,100 | +915,400 | +9,621,500 |
| **D.**—*Closing Balance.* | **12,868,000** | **6,721,800** | **19,589,800** | **19,543,900** | **8,372,900** | **27,916,800** | **+6,675,900** | **+1,651,100** | **+8,327,000** |

* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve.

| | 1913-14. | | |
|---|---|---|---|
| | Budget. | | |
| | India. | England. | Total. |
| | £ | £ | £ |
| **A.**—*Opening Balance* | 19,543,900 | 8,372,900 | 27,916,800 |
| **B.**—*Receipts.* | | | |
| 1. Revenue | 81,522,600 | 801,900 | 82,324,500 |
| 2. Capital received from Railway Companies | 156,100 | 3,000,000 | 3,156,100 |
| 3. Loans issued | 2,000,000 | — | 2,000,000 |
| 4. Unfunded Debt (net) | 1,501,400 | — | 1,501,400 |
| 5. Deposits and Advances (net)* | 657,800 | *—400* | 657,400 |
| 6. Miscellaneous Remittances (net) | *—1,311,800* | 1,243,700 | *—68,100* |
| 7. Council Bills and Transfers | — | 21,650,000 | 21,650,000 |
| Total Receipts | 84,526,100 | 26,695,200 | 111,221,300 |
| **C.**—*Disbursements.* | | | |
| 8. Expenditure chargeable to Revenue | 63,529,500 | 20,381,300 | 83,910,800 |
| 9. Capital outlay on Railways, Irrigation Works, and Delhi. | 6,143,700 | 8,813,200 | 14,956,900 |
| 10. Discharge of Debt | 87,300 | 1,781,200 | 1,868,500 |
| 11. Loans and Advances (net) | 112,800 | — | 112,800 |
| 12. Council Bills and Transfers | 21,650,000 | — | 21,650,000 |
| Total Disbursements | 91,523,300 | 30,975,700 | 122,499,000 |
| **D.**—*Closing Balance* | **12,546,700** | **4,092,400** | **16,639,100** |

* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve.

STATEMENT B.

## Closing Balances in India and England on 31st March from 1893 to 1914 (rupees are converted at Rs. 15 = £1).

*Omitting Cash held on behalf of Gold Standard Reserve.*

| Year ending | Budget. | | | Actual. | | | Adjusted Actuals, *i.e.*, Actuals after deducting amounts shown in footnotes. | | |
|---|---|---|---|---|---|---|---|---|---|
| | India. | England. | Total. | India. | England. | Total. | India. | England. | Total. |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 31st March 1893 | 8,865,896 | 2,176,150 | 11,042,046 | 10,181,171 | 2,268,385 | 12,449,556 | | | |
| „ 1894 | 8,428,737 | 1,972,526 | 10,401,263 | 17,043,725 | 1,300,564 | 18,344,289 | | | |
| „ 1895 | 14,456,171 | 1,711,488 | 16,167,659 | 15,019,659 | 2,503,124 | 17,522,783 | | | |
| „ 1896 | 10,708,459 | 1,676,464 | 12,384,923 | 11,000,340 | 3,393,798 | 14,394,138 | | | |
| „ 1897 | 9,370,659 | 2,463,824 | 11,834,483 | 9,249,168 | 2,832,354 | 12,081,522 | | | |
| „ 1898 | 8,881,140 | 2,271,298 | 11,152,438 | 10,654,962 | 2,534,244 | 13,189,206 | | | |
| „ 1899 | 10,805,968 | 2,242,854 | 13,048,822 | 11,177,669 | 3,145,768 | 14,323,437 | | | |
| „ 1900 | 11,119,629 | 2,817,344 | 13,936,973 | 8,425,827 | 3,330,943 | 11,756,770 | | | |
| „ 1901 | 9,066,869 | 2,021,568 | 11,088,437 | 8,767,687 | 4,091,926 | 12,859,613 | | | |
| „ 1902 | 10,500,327 | 2,605,943 | 13,106,270 | 11,880,301 | 6,693,137 | 18,573,438 | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| „ | 1903 | 10,832,381 | 4,056,726 | 14,883,107 | 12,081,388 | 5,767,787 | 17,849,175 | | | |
| „ | 1904 | 11,496,301 | 3,934,637 | 15,430,938 | 11,702,394 | 7,294,782 | 18,997,176 | | | |
| „ | 1905 | 11,060,616 | 4,567,287 | 15,627,903 | 10,597,770 | 10,262,581 | 20,860,351 | | | |
| „ | 1906 | 12,160,052 | 5,323,182 | 17,483,234 | 11,494,578 | 8,436,519 | 19,931,097 | | | |
| „ | 1907 | 12,305,770 | 5,218,981 | 17,524,751 | 10,026,932 | 5,606,812 | 15,633,744 | | | |
| „ | 1908 | 12,368,757 | 3,437,119 | 15,805,876 | 12,851,413 | 4,607,266 [1] | 17,458,679 [1] | 12,851,413 | 474,266 | 13,325,679 |
| „ | 1909 | 11,870,137 | 3,759,012 | 15,629,149 | 10,235,483 | 7,983,898 [2] | 18,219,381 [2] | 10,235,483 | 5,508,898 | 13,744,381 |
| „ | 1910 | 12,262,563 | 3,328,689 | 15,591,252 | 12,295,428 | 12,799,094 [3] | 25,074,522 [3] | 12,295,428 | 6,429,094 | 18,724,522 |
| „ | 1911 | 12,469,327 | 5,265,915 | 17,735,242 | 13,566,922 | 16,696,990 [4] | 30,263,912 [4] | 13,566,922 | 12,583,990 | 26,150,912 |
| „ | 1912 | 12,483,228 | 8,738,218 [5] | 21,221,446 [5] | 12,279,689 | 18,390,013 [6] | 30,669,702 [6] | 12,279,689 | 15,246,013 | 27,525,702 |
| „ | 1913 | 12,868,022 | 6,721,849 | 19,589,871 | 19,543,900. (Revised Estimate). | 8,372,900 (Revised Estimate). | 27,916,800 (Revised Estimate). | | | |
| „ | 1914 | 12,546,700 | 4,092,400 | 16,639,100 | | | | | | |

[1] Including 4,139,000*l.* received from loan issued in January 1908 towards capital requirements of 1908–09.
[2] Including 4,475,000*l.* received from loan issued in February 1909 towards capital requirements of 1909–10.
[3] Including 6,370,000*l.* received from loan issued in January 1910 to provide for capital requirements of 1910–11.
[4] Including 2,210,000*l.* received from loan raised in 1910–11 towards providing for capital requirements of 1911–12, and 1,903,000*l.* being part of "Opium Surplus" received in 1910–11 and specially held towards providing for the discharge of temporary debt after 1911–12.
[5] Including the 1,903,000*l.* shown in Note 4.
[6] Including 3,144,000*l.* specially held towards providing for the discharge of temporary debt after 1911–12 (viz., the 1,903,000*l.* shown in Notes 4 and 5, and 1,241,000*l.* from "Opium Surplus" received in 1911–12).

## STATEMENT C.

DISTRIBUTION OF BALANCES* IN INDIA, 1895–96, 1900–01, 1905–06, 1910–11, 1911–12, 1912–13 (Rupees are converted at Rs. 15 = £1.)

| | (1) In the Head Offices of the three Presidency Banks. | (2) In the three Reserve Treasuries. | (3) In District Treasuries and Branches of Presidency Banks. | | | | | (4) Total of columns 1, 2, & 3. | (5) Total in Presidency Banks, (column 1 + column 3 (*b*). |
|---|---|---|---|---|---|---|---|---|---|
| | | | Number of District Treasuries. | (*a*) In District Treasuries.† | Number of Branches. | (*b*) In Branches of Presidency Banks.† | Total. Total of (*a*) and (*b*). | | |
| | £ | £ | | £ | | £ | £ | £ | £ |
| 30th June 1895 | 1,020,867 | 4,921,000 | | — | | — | 8,193,266 | 14,135,133 | — |
| 30th September 1895 | 1,041,667 | 1,311,600 | | — | | — | 6,814,533 | 9,167,800 | — |
| 31st December 1895 | 941,333 | 581,667 | | — | | — | 5,589,800 | 7,112,800 | — |
| 31st March 1896 | 1,055,000 | 1,434,867 | 253 | 6,696,200 | 28 | 1,814,200 | 281 8,510,400 | 11,000,267 | 2,869,200 |
| 30th June 1900 | 1,059,400 | 1,460,667 | | — | | — | 6,230,333 | 8,750,400 | — |
| 30th September 1900 | 1,106,867 | 1,041,800 | | — | | — | 4,367,333 | 6,516,000 | — |
| 31st December 1900 | 1,094,333 | 1,379,200 | | — | | — | 4,222,667 | 6,696,200 | — |
| 31st March 1901 | 948,333 | 2,581,467 | 255 | 5,841,333 | 29 | 1,227,800 | 284 7,069,133 | 10,598,933 | 2,176,133 |
| 30th June 1905 | 1,165,600 | 2,757,000 | | — | | — | 7,791,467 | 11,714,067 | — |
| 30th September 1905 | 1,128,533 | 3,780,133 | | — | | — | 6,419,934 | 11,328,600 | — |
| 31st December 1905 | 1,064,600 | 1,585,000 | | — | | — | 4,839,533 | 7,489,133 | — |
| 31st March 1906 | 1,101,867 | 2,732,133 | 266 | 6,875,067 | 26 | 1,072,333 | 292 7,947,400 | 11,781,400 | 2,174,200 |
| 30th June 1910 | 974,000 | 5,601,667 | | — | | — | 6,857,000 | 13,432,467 | — |
| 30th September 1910 | 1,356,200 | 4,789,133 | | — | | — | 6,293,200 | 12,438,533 | — |
| 31st December 1910 | 1,296,800 | 1,877,333 | | — | | — | 5,611,333 | 8,785,467 | — |
| 31st March 1911 | 1,114,467 | 4,437,667 | 270 | 6,384,200 | 36 | 1,630,533 | 306 8,014,733 | 13,566,867 | 2,745,000 |
| 30th June 1911 | 1,131,700 | 5,454,300 | | — | | — | 7,568,200 | 14,154,200 | — |
| 30th September 1911 | 1,081,500 | 3,791,500 | | — | | — | 6,942,500 | 11,815,500 | — |
| 31st December 1911 | 1,056,600 | 2,143,300 | | — | | — | 6,540,800 | 9,740,700 | — |
| 31st March 1912 | 1,402,500 | 3,506,000 | 270 | 5,790,700 | 36 | 1,580,500 | 306 7,371,200 | 12,279,700 | 2,983,000 |
| 30th June 1912 | 1,418,800 | 6,308,900 | | — | | — | 6,945,400 | 14,673,100 | — |
| 30th September 1912 | 1,336,500 | 9,657,600 | | — | | — | 6,429,500 | 17,423,600 | — |
| 31st December 1912 | 1,201,900 | 7,078,700 | | — | | — | 6,382,100 | 14,662,700 | — |
| 31st March 1913 | 1,595,400 | 8,908,700 | 271 | 6,607,400 | 35 | 2,156,700 | 306 8,764,100 | 19,268,200 | 3,752,100 |

* It has not been found possible to eliminate sums temporarily held in the Balances pending transfer to the Gold Standard Reserve. The sums in question are:—On 31st March 1901, 1,831,294*l.*; on 31st March 1906, 286,879*l.*

† Figures not available except for 31st March in each year.

## STATEMENT D.

# Liabilities and Assets of the Presidency Banks, 1890, 1891, 1892, 1910, 1911, and 1912.

The figures in the tables below are taken from the last Weekly Statement for each Quarter.

# BANK OF BENGAL.

| Last week in | Liabilities. | | | | | Assets. | | | | Percentage of Public Deposits to Capital and Reserve. | Percentage of Public Deposits to Cash and Currency Notes. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital and Reserve. | Public Deposits (Liabilities to Government). | | | Other Liabilities. | Securities. | Advances, Loans, Credits, Bills discounted, &c. | Sundries. | Cash and Currency Notes. | | |
| | | Head Office. | Branches. | Total. | | | | | | | |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | | |
| Mar. 1890 - | 2,58,00,000 | | | 1,85,52,686 | 3,06,83,656 | 83,53,418 | 4,98,59,027 | 21,68,749 | 1,46,55,148 | 71·7 | 126·5 |
| June 1890 - | 2,58,00,000 | | | 2,37,52,215 | 4,08,59,140 | 1,68,63,061 | 3,79,24,027 | 19,84,570 | 3,36,39,696 | 91·8 | 70·5 |
| Sept. 1890 - | 2,47,00,000 | | | 2,01,69,391 | 6,04,90,560 | 2,20,10,041 | 2,48,43,976 | 26,58,705 | 5,58,47,227 | 81·8 | 36 |
| Dec. 1890 - | 2,47,00,000 | | | 1,97,59,184 | 7,09,95,600 | 2,08,81,880 | 2,83,11,447 | 36,40,181 | 6,26,21,275 | 80·1 | 31·6 |
| Mar. 1891 - | 2,47,00,000 | | | 2,01,59,164 | 5,94,37,985 | 1,69,69,128 | 4,22,27,252 | 43,31,718 | 4,07,69,049 | 81·7 | 49·5 |
| June 1891 - | 2,47,00,000 | | | 2,75,29,090 | 7,39,34,066 | 2,13,48,035 | 3,54,18,810 | 45,31,799 | 6,48,64,501 | 111·3 | 42·4 |
| Sept. 1891 - | 2,47,00,000 | | | 2,07,10,080 | 6,56,73,436 | 2,04,87,084 | 3,43,88,616 | 52,99,121 | 5,09,08,694 | 83·8 | 40·7 |
| Dec. 1891 - | 2,47,00,000 | | | 1,64,18,257 | 6,60,66,550 | 1,79,02,114 | 3,88,37,357 | 59,05,948 | 4,45,39,387 | 66·4 | 36·8 |
| Mar. 1892 - | 2,47,00,000 | | | 2,17,48,438 | 4,83,55,805 | 1,20,87,465 | 4,96,56,275 | 36,57,690 | 2,94,02,813 | 83·8 | 74 |
| June 1892 - | 2,47,00,000 | | | 1,75,98,538 | 5,63,19,486 | 1,87,97,304 | 4,20,82,727 | 33,47,588 | 3,43,90,404 | 71·3 | 51·1 |
| Sept. 1892 - | 2,48,00,000 | | | 1,83,07,088 | 5,84,55,027 | 1,64,80,765 | 3,30,98,139 | 29,08,377 | 4,90,74,833 | 73·8 | 37·2 |
| Dec. 1892 - | 2,48,00,000 | Not shown separately. | Not shown separately. | 1,41,10,165 | 5,83,21,163 | 1,16,28,352 | 4,60,59,017 | 30,84,101 | 3,64,59,857 | 56·8 | 38·6 |
| | | | | | | | | | Average - | 79·5 | 52·9 |
| Mar. 1910 - | 3,70,00,000 | 79,19,657 | 1,12,51,669 | 1,91,71,327 | 16,71,61,511 | 3,95,91,982 | 13,07,91,832 | 23,86,260 | 5,05,62,763 | 51·9 | 37·9 |
| June 1910 - | 3,70,00,000 | 91,69,365 | 94,79,310 | 1,86,48,675 | 17,76,76,815 | 3,34,16,280 | 10,67,62,777 | 22,94,849 | 9,08,51,584 | 50·3 | 20·5 |
| Sept. 1910 - | 3,73,00,000 | 84,05,073 | 1,09,07,159 | 1,93,12,232 | 18,10,88,320 | 3,61,56,286 | 11,80,80,687 | 24,28,262 | 8,10,35,317 | 51·7 | 23·8 |
| Dec. 1910 - | 3,73,00,000 | 84,87,071 | 91,42,150 | 1,76,29,221 | 16,14,57,449 | 3,68,61,148 | 12,52,65,285 | 30,21,611 | 5,12,38,626 | 47·0 | 34·5 |
| Mar. 1911 - | 3,75,00,000 | 84,25,493 | 1,21,50,961 | 2,05,76,454 | 16,39,02,014 | 3,77,53,235 | 12,51,47,988 | 23,94,665 | 5,66,82,580 | 54·9 | 36·3 |
| June 1911 - | 3,75,00,000 | 92,98,250 | 1,11,49,065 | 2,04,47,316 | 15,87,42,827 | 2,85,76,524 | 10,77,50,197 | 22,91,207 | 7,80,72,214 | 54·4 | 26·1 |
| Sept. 1911 - | 3,79,00,000 | 54,76,243 | 1,39,04,495 | 1,93,80,738 | 16,94,52,147 | 3,28,10,864 | 12,37,83,589 | 24,59,972 | 6,76,78,459 | 51·2 | 28·6 |
| Dec. 1911 - | 3,79,00,000 | 84,48,350 | 1,44,51,550 | 2,28,99,900 | 17,20,54,729 | 3,24,29,243 | 11,88,97,835 | 22,82,173 | 7,92,45,378 | 60·4 | 28·9 |
| Mar. 1912 - | 3,80,00,000 | 87,73,354 | 1,04,05,560 | 1,91,78,915 | 16,60,10,826 | 3,11,03,588 | 12,33,25,083 | 26,45,409 | 6,61,15,660 | 50·5 | 29·0 |
| June 1912 - | 3,80,00,000 | 90,55,465 | 1,09,19,308 | 1,99,74,773 | 16,37,03,322 | 3,06,06,437 | 11,26,99,267 | 29,17,401 | 7,54,54,989 | 52·6 | 26·5 |
| Sept. 1912 - | 3,83,00,000 | 99,12,783 | 84,17,575 | 1,83,30,358 | 18,20,19,288 | 3,04,84,977 | 11,93,22,637 | 29,31,046 | 8,59,10,986 | 47·8 | 21·4 |
| Dec. 1912 - | 3,83,00,000 | 72,00,188 | 1,26,15,845 | 1,98,16,034 | 16,95,91,087 | 3,11,01,505 | 12,58,53,394 | 28,78,126 | 6,78,74,096 | 51·7 | 29·1 |
| | | | | | | | | | Average - | 52·0 | 28·5 |

# BANK OF MADRAS.

| Last week in | Liabilities. | | | | | Assets. | | | | Percentage of Public Deposits to Capital and Reserve. | Percentage of Public Deposits to Cash and Currency Notes. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital and Reserve. | Public Deposits (Liabilities to Government). | | | Other Liabilities. | Securities. | Advances, Loans, Credits, Bills discounted, &c. | Sundries. | Cash and Currency Notes. | | |
| | | Head Office. | Branches. | Total. | | | | | | | |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | | Rs. | Rs. | | |
| March 1890 - | 63,50,000 | | | 66,15,961 | 1,96,21,068 | 15,66,356 | 2,27,36,753 | 3,32,380 | 79,51,535 | 104·7 | 83·5 |
| June 1890 - | 63,50,000 | | | 49,01,467 | 2,00,15,119 | 36,70,072 | 1,89,03,116 | 3,39,740 | 83,53,660 | 77·7 | 58·3 |
| Sept. 1890 - | 64,00,000 | | | 35,18,388 | 2,23,85,258 | 53,30,335 | 1,27,55,239 | 3,25,166 | 1,38,93,002 | 54·7 | 25·2 |
| Dec. 1890 - | 64,00,000 | | | 47,91,096 | 2,24,29,665 | 45,86,873 | 1,31,32,057 | 3,17,315 | 1,55,84,515 | 75 | 30·8 |
| March 1891 - | 64,00,000 | | | 48,72,636 | 2,42,27,310 | 40,59,364 | 1,96,10,739 | 3,43,191 | 1,14,86,649 | 76·5 | 42·6 |
| June 1891 - | 64,00,000 | | | 53,63,764 | 2,86,93,815 | 56,65,315 | 1,69,53,267 | 3,39,974 | 1,74,99,022 | 84·3 | 30·9 |
| Sept. 1891 - | 64,00,000 | | | 41,50,974 | 2,62,35,613 | 79,55,002 | 1,38,34,315 | 3,24,006 | 1,46,73,261 | 65·6 | 28·6 |
| Dec. 1891 - | 64,00,000 | | | 46,17,568 | 2,53,36,372 | 60,64,893 | 1,68,64,310 | 3,41,510 | 1,30,83,227 | 71·9 | 35·1 |
| March 1892 - | 64,00,000 | | | 65,18,746 | 2,30,33,551 | 37,98,089 | 2,20,27,195 | 3,45,471 | 97,81,537 | 101·5 | 66·3 |
| June 1892 - | 64,00,000 | | | 57,00,638 | 2,69,00,499 | 65,18,661 | 1,73,08,152 | 3,47,563 | 1,48,26,761 | 89·1 | 38·5 |
| Sept. 1892 - | 64,00,000 | Not shown separately. | Not shown separately. | 35,04,351 | 3,08,04,435 | 81,82,562 | 1,49,35,103 | 3,79,206 | 1,72,11,909 | 54·7 | 20·5 |
| Dec. 1892 - | 64,00,000 | | | 41,32,135 | 2,91,71,611 | 68,77,156 | 1,91,95,288 | 3,37,201 | 1,32,94,102 | 64·1 | 30·8 |
| | | | | | | | | | Average - | 76·7 | 40·9 |
| March 1910 - | 1,05,50,000 | 24,60,805 | 33,06,138 | 57,66,945 | 5,44,00,037 | 45,77,349 | 5,23,30,437 | 8,34,957 | 1,29,74,238 | 54·3 | 44·6 |
| June 1910 - | 1,05,50,000 | 27,90,736 | 33,85,216 | 61,75,953 | 6,60,78,421 | 85,70,404 | 4,80,48,981 | 10,96,420 | 2,50,88,568 | 58·5 | 24·7 |
| Sept. 1910 - | 1,08,00,000 | 25,91,831 | 32,16,532 | 58,08,364 | 6,43,09,727 | 86,04,096 | 4,22,44,815 | 8,88,160 | 2,91,81,019 | 53·7 | 20·0 |
| Dec. 1910 - | 1,08,00,000 | 39,75,844 | 32,98,196 | 72,74,040 | 5,74,73,465 | 85,44,716 | 4,76,86,662 | 8,64,146 | 1,84,51,979 | 67·6 | 39·5 |
| March 1911 - | 1,09,50,000 | 29,04,021 | 46,39,452 | 75,43,474 | 5,99,56,535 | 72,47,421 | 5,35,45,482 | 14,14,115 | 62,42,990 | 68·9 | 121·0 |
| June 1911 - | 1,09,50,000 | 39,97,583 | 37,72,743 | 77,70,326 | 6,41,53,131 | 85,61,555 | 5,03,79,880 | 8,86,203 | 2,30,45,818 | 71·0 | 33·9 |
| Sept. 1911 - | 1,12,00,000 | 24,04,696 | 39,98,497 | 64,03,194 | 6,18,91,348 | 1,05,07,200 | 4,86,46,185 | 10,72,829 | 1,92,68,327 | 57·1 | 33·1 |
| Dec. 1911 - | 1,12,00,000 | 26,83,045 | 32,66,425 | 59,49,471 | 6,34,16,335 | 1,04,52,866 | 5,29,21,786 | 6,02,710 | 1,65,88,942 | 53·5 | 35·5 |
| March 1912 - | 1,13,00,000 | 50,77,703 | 55,40,712 | 1,06,18,416 | 6,69,42,618 | 75,55,013 | 6,09,62,910 | 17,28,641 | 1,86,14,469 | 93·8 | 57·0 |
| June 1912 - | 1,43,00,000 | 38,07,821 | 36,98,652 | 75,06,474 | 7,20,97,019 | 1,07,69,593 | 5,93,09,883 | 6,67,136 | 2,31,56,880 | 52·4 | 32·4 |
| Sept. 1912 - | 1,45,00,000 | 36,37,359 | 33,63,041 | 70,00,400 | 7,19,85,810 | 1,13,60,663 | 5,85,91,651 | 8,00,736 | 2,27,33,158 | 48·3 | 30·8 |
| Dec. 1912 - | 1,45,00,000 | 44,71,777 | 31,00,795 | 75,72,573 | 7,51,38,493 | 1,13,34,866 | 6,51,41,603 | 10,68,566 | 1,96,66,031 | 52·4 | 38·6 |
| | | | | | | | | | Average | 60·2 | 42·6 |

# BANK OF BOMBAY.

| Last week in | Liabilities. | | | | | Assets. | | | | Percentage of Public Deposits to Capital and Reserve. | Percentage of Public Deposits to Cash and Currency Notes. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital and Reserve. | Public Deposits (Liabilities to Government). | | | Other Liabilities. | Securities. | Advances, Loans, Credits, Bills discounted, &c. | Sundries. | Cash and Currency Notes. | | |
| | | Head Office. | Branches. | Total. | | | | | | | |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | | |
| March 1890 - | 1,30,00,000 | Not shown separately. | Not shown separately. | 1,29,71,319 | 2,62,54,610 | 50,33,338 | 3,83,17,389 | 3,98,472 | 84,76,730 | 99·8 | 153·0 |
| June 1890 - | 1,30,00,000 | | | 71,64,819 | 3,04,82,056 | 71,56,737 | 3,11,69,432 | 8,95,305 | 1,14,25,401 | 55·1 | 62·7 |
| Sept. 1890 - | 1,33,00,000 | | | 90,23,630 | 4,59,45,721 | 82,58,028 | 1,73,17,733 | 4,14,455 | 4,22,79,135 | 67·9 | 21·3 |
| Dec. 1890 - | 1,33,00,000 | | | 87,13,756 | 6,29,75,909 | 78,52,543 | 1,79,30,185 | 4,24,443 | 5,87,80,494 | 65·5 | 14·8 |
| March 1891 - | 1,33,50,000 | | | 1,06,13,591 | 3,95,73,595 | 63,63,617 | 3,19,40,311 | 8,16,121 | 2,44,17,137 | 79·5 | 43·5 |
| June 1891 - | 1,33,50,000 | | | 92,25,080 | 4,65,21,002 | 1,11,55,442 | 2,82,55,349 | 7,27,474 | 2,89,57,817 | 69·1 | 31·9 |
| Sept. 1891 - | 1,34,00,000 | | | 98,65,873 | 5,82,83,492 | 1,24,85,159 | 2,35,52,416 | 4,12,506 | 4,50,99,284 | 73·6 | 21·9 |
| Dec. 1891 - | 1,34,00,000 | | | 74,71,586 | 5,36,04,336 | 1,30,10,148 | 2,78,98,711 | 4,13,577 | 3,31,53,486 | 55·8 | 22·6 |
| March 1892 - | 1,34,50,000 | | | 1,25,91,465 | 3,47,19,133 | 1,21,05,405 | 3,32,07,551 | 4,14,872 | 1,50,32,770 | 93·6 | 84·0 |
| June 1892 - | 1,34,50,000 | | | 1,01,00,476 | 4,11,94,516 | 1,14,10,109 | 3,13,53,978 | 7,07,042 | 2,12,73,863 | 75·1 | 47·4 |
| Sept. 1892 - | 1,36,50,000 | | | 83,89,167 | 5,19,11,393 | 1,20,68,680 | 2,23,16,342 | 4,07,689 | 3,91,57,849 | 61·5 | 21·5 |
| Dec. 1892 - | 1,36,50,000 | | | 87,47,389 | 4,86,96,149 | 1,11,84,930 | 3,44,96,453 | 8,41,034 | 2,45,71,121 | 64·1 | 35·4 |
| | | | | | | | | | Average - | 71·7 | 46·7 |
| March 1910 - | 203,00,000 | 61,46,061 | 1,24,88,067 | 1,86,34,128 | 9,51,85,436 | 1,54,86,507 | 8,48,26,159 | 7,62,746 | 3,30,44,152 | 91·6 | 56·3 |
| June 1910 - | 203,00,000 | 50,74,651 | 71,81,283 | 1,22,55,934 | 10,38,63,727 | 1,65,03,863 | 7,40,81,755 | 18,61,110 | 4,39,72,933 | 60·9 | 28·0 |
| Sept. 1910 - | 205,00,000 | 47,85,354 | 64,38,316 | 1,12,23,670 | 13,16,84,334 | 2,05,60,242 | 7,69,72,161 | 9,29,460 | 6,49,46,141 | 54·6 | 17·5 |
| Dec. 1910 - | 205,00,000 | 69,89,148 | 82,59,559 | 1,52,48,707 | 10,82,47,946 | 1,49,16,850 | 8,33,34,072 | 21,29,636 | 4,36,16,095 | 74·2 | 34·8 |
| March 1911 - | 205,00,000 | 57,43,086 | 1,16,91,015 | 1,74,34,101 | 10,29,40,161 | 1,41,55,372 | 8,72,60,354 | 20,41,565 | 3,74,16,971 | 84·9 | 46·5 |
| June 1911 - | 205,00,000 | 58,17,700 | 74,83,879 | 1,33,01,579 | 10,89,25,382 | 1,56,72,718 | 7,81,90,851 | 26,31,986 | 4,62,31,356 | 64·9 | 28·8 |
| Sept. 1911 - | 206,00,000 | 63,40,886 | 62,16,549 | 1,25,57,435 | 12,44,31,876 | 2,30,61,099 | 6,52,60,614 | 14,35,707 | 6,78,31,891 | 61·1 | 18·5 |
| Dec. 1911 - | 206,00,000 | 46,24,982 | 61,64,312 | 1,07,89,294 | 11,32,12,272 | 2,08,74,533 | 7,54,52,281 | 19,65,405 | 4,63,09,347 | 52·4 | 23·3 |
| March 1912 - | 206,00,000 | 70,69,414 | 1,00,69,083 | 1,71,38,497 | 11,04,58,190 | 2,31,04,564 | 7,61,30,268 | 12,26,634 | 4,77,35,221 | 83·0 | 35·8 |
| June 1912 - | 206,00,000 | 83,70,694 | 71,90,040 | 1,55,60,734 | 10,31,15,450 | 2,04,79,997 | 6,44,08,149 | 29,24,594 | 5,14,63,444 | 75·7 | 30·1 |
| Sept. 1912 - | 206,00,000 | 67,05,630 | 72,68,566 | 1,39,74,196 | 11,42,00,231 | 2,44,78,531 | 7,19,82,310 | 15,63,013 | 5,07,50,573 | 67·9 | 27·4 |
| Dec. 1912 - | 206,00,000 | 44,87,113 | 59,97,176 | 1,04,84,289 | 11,47,52,062 | 2,10,94,639 | 8,96,94,187 | 15,41,958 | 3,35,05,567 | 51·0 | 31·3 |
| | | | | | | | | | Average - | 68·5 | 31·5 |

## STATEMENT E.

# Net Revenue and Expenditure of the Government of India (excluding Provincial Adjustments) 1909-10 to 1913-14.

| | 1909-10. | | | 1910-11. | | | 1911-12. | | | 1912-13. | | | Total improvement or deterioration in four years. | 1913-14. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Budget. | Actual. | Better (+) or worse (−). | Budget. | Actual. | Better (+) or worse (−). | Budget. | Actual. | Better (+) or worse (−). | Budget. | Revised Estimate. | Better (+) or worse (−). | | Budget. |
| NET REVENUE:— | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Land Revenue, Forest, and Tributes | 22,343,500 | 22,673,220 | +329,720 | 22,563,500 | 22,343,843 | − 219,657 | 22,950,600 | 22,339,617 | − 610,983 | 22,893,800 | 23,035,400 | + 141,600 | −359,320 | 23,049,800 |
| Opium | 3,314,300 | 4,195,614 | +881,314 | 3,550,100 | 6,271,531 | +2,721,431 | 3,093,300 | 5,228,212 | + 2,134,912 | 2,930,700 | 4,503,500 | +1,572,800 | +7,310,457 | 306,000 |
| Taxation | 21,676,600 | 21,382,953 | −293,647 | 23,120,900 | 23,689,845 | + 568,945 | 23,594,909 | 24,350,768 | + 755,868 | 24,745,200 | 25,815,600 | +1,070,400 | +2,101,566 | 25,654,200 |
| Commercial Undertaking (including Railways). | 1,903,700 | 1,341,287 | −562,413 | 941,600 | 2,668,240 | +1,726,640 | 2,398,200 | 4,712,239 | + 2,314,039 | 2,768,400 | 6,831,800 | +4,063,400 | +7,541,666 | 5,656,000 |
| Mint and Exchange | 41,700 | 25,676 | −15,024 | 50,800 | 173,825 | +123,025 | 104,700 | 356,290 | + 251,590 | 104,300 | 499,000 | +394,700 | +754,291 | 170,200 |
| Total | 49,279,800 | 49,619,750 | +339,950 | 50,226,900 | 55,147,284 | +4,920,384 | 52,141,709 | 56,987,126 | + 4,845,426 | 53,442,400 | 60,685,300 | + 7,242,900 | +17,348,660 | 54,836,200 |
| NET EXPENDITURE:— | | | | | | | | | | | | | | |
| Debt Services | 978,300 | 930,702 | −47,598 | 1,027,600 | 703,463 | − 324,137 | 948,100 | 588,994 | − 359,106 | 817,900 | 344,000 | − 473,900 | −1,204,741 | 22,700 |
| Military Services | 19,553,000 | 19,112,323 | −440,677 | 19,706,500 | 19,265,042 | − 441,458 | 19,575,200 | 19,558,580 | − 16,620 | 19,094,500 | 19,635,400 | +540,900 | −457,855 | 19,646,800 |
| Collection of Revenue, Civil Services and Famine Relief, and Insurance. | 28,618,100 | 28,076,048 | −542,052 | 29,739,000 | 29,281,290 | − 457,710 | 32,515,200 | 31,930,134 | − 585,066 | 33,609,400 | 33,238,300 | −371,100 | −1,955,928 | 36,753,000 |
| Total | 49,249,400 | 48,119,073 | −1,130,327 | 50,473,100 | 49,249,795 | − 1,223,305 | 53,038,500 | 52,077,708 | − 960,792 | 53,521,800 | 53,217,700 | −304,100 | −3,618,524 | 56,422,500 |
| Excess (+) or deficit (−) of Revenue. | +30,400 | +1,500,677 | +1,470,277 | − 246,200 | + 5,897,489 | + 6,143,689 | − 896,800 | +4,909,418 | + 5,806,218 | − 79,400 | +7,467,600 | + 7,547,000 | +20,967,184 | −1,586,300 |

# STATEMENT F.

## Sales of Council Bills and Telegraphic Transfers 1893–94 to 1912–13.

| Year. | Budget. | | | Actual. | | | | Excess (+) or Deficiency (−) of Actuals as compared with Budget. | Amount paid for Bills on the Secretary of State drawn and sold by the Government of India for support of Exchange. |
|---|---|---|---|---|---|---|---|---|---|
| | For Paper Currency Reserve. | For General Purposes. | Total. | Appropriated to Gold Standard Reserve. | Appropriated to Paper Currency Reserve for Purchase of Securities, or in Gold. | Used for General Purposes, including Purchase of Silver. | Total. | | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 1893–94 | — | 18,700,000 | 18,700,000 | — | — | 9,530,235 | 9,530,235 | *−9,169,765* | — |
| 1894–95 | — | 17,000,000 | 17,000,000 | — | — | 16,905,102 | 16,905,102 | *−94,898* | — |
| 1895–96 | — | 17,000,000 | 17,000,000 | — | — | 17,664,492 | 17,664,492 | +664,492 | — |
| 1896–97 | — | 16,500,000 | 16,500,000 | — | — | 15,52,6547 | 15,526,547 | *−973,453* | — |
| 1897–98 | — | 13,000,000 | 13,000,000 | — | — | *8,836,688 | 8,836,688 | *−4,163,312* | — |
| 1898–99 | — | 16,000,000 | 16,000,000 | — | — | 18,692,377 | 18,692,377 | +2,692,377 | — |
| 1899–1900 | — | 17,000,000 | 17,000,000 | — | 1,500,000 | 17,567,022 | 19,067,022 | +2,067,022 | — |
| 1900–01 | — | 16,440,000 | 16,440,000 | — | 100,000 | 13,200,277 | 13,300,277 | *−3,139,723* | — |
| 1901–02 | — | 16,500,000 | 16,500,000 | 1,939,093 | — | 16,599,978 | 18,539,071 | +2,039,071 | — |
| 1902–03 | — | 16,500,000 | 16,500,000 | 263,000 | — | 18,236,946 | 18,499,946 | +1,999,946 | — |
| 1903–04 | — | 17,000,000 | 17,000,000 | 2,200,000 | — | 21,659,303 | 23,859,303 | +6,859,303 | — |
| 1904–05 | — | 16,500,000 | 16,500,000 | 700,396 | — | 23,725,162 | 24,425,558 | +7,925,558 | — |
| 1905–06 | 1,333,000 | 16,500,000 | 17,833,000 | 3,543,000 | 1,333,333 | 27,290,640 | 32,166,973 | +14,333,973 | — |
| 1906–07 | — | 17,800,000 | 17,800,000 | — | 2,775,000 | 30,382,196 | 33,157,196 | +15,357,196 | — |
| 1907–08 | — | 18,100,000 | 18,100,000 | 526,324 | 925,000 | 14,780,738 | 16,232,062 | *−1,867,938* | — |
| 1908–09 | — | 18,500,000 | 18,500,000 | 1,491,487 | — | 12,423,939 | 13,915,426 | *−4,584,574* | 8,058,000 |
| 1909–10 | — | 16,200,000 | 16,200,000 | 8,090,600 | 1,000,000 | 18,006,586 | 27,096,586 | +10,896,586 | 156,000 |
| 1910–11 | — | 15,500,000 | 15,500,000 | 600,000 | 2,545,000 | 23,638,303 | 26,783,303 | +11,283,303 | — |
| 1911–12 | 1,333,300 | 15,825,000 | 17,158,300 | — | 1,988,333 | 25,070,217 | 27,058,550 | +9,900,250 | — |
| 1912–13 | — | 15,500,000 | 15,500,000 | — | — | 25,759,706 | 25,759,706 | +10,259,706 | — |
| | 2,666,300 | 332,065,000 | 334,731,300 | 19,353,300 | 12,166,666 | 375,496,454 | 407,016,420 | +72,285,120 | 8,214,000 |

* 9,506,077*l.* *less* 669,389*l.* for purchase by Secretary of State of Bills on Indian banks.

The figures in column 6 differ from those in the General Purposes columns of the Appendix to the Memorandum on India Office Balances for the following reasons:—

1902–03 includes 285,000*l.* for the purchase of silver.
1903–04 includes 4,055,327*l.* for the purchase of silver.
1904–05 includes 4,540,378*l.* for the purchase of silver.
1905–06 includes 8,118,043*l.* for the purchase of silver.
1906–07 includes 10,720,929*l.* for the purchase of silver.
1907–08 includes 1,191,255*l.* for the purchase of silver.
1909–10 includes 156,000*l.* for Bills sold in India.

## STATEMENT G.

### Summary of India Office Transactions, 1909–10 to 1913–14.

| | 1909–10. | | | 1910–11. | | | 1911–12. | | | 1912–13. | | | 1913–14. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Budget. | Actual. | Difference. | Budget. | Actual. | Difference. | Budget. | Actual. | Difference. | Budget. | Revised Estimate. | Difference. | Budget. |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Opening Balance | 7,697,989 | 7,983,898 | +285,909 | 12,739,297 | 12,799,090 | +59,793 | 16,055,518 | 16,696,991 | +641,473 | 18,320,649 | 18,390,000 | +69,351 | 8,372,900 |
| Receipts:— | | | | | | | | | | | | | |
| Bills and Transfers | 16,200,000 | 18,006,586 | +1,806,586 | 15,500,000 | 23,638,303 | +8,138,303 | 15,825,000 | 25,070,216 | +9,245,216 | 15,500,000 | 25,660,000 | +10,160,000 | 21,650,000 |
| Gold from India | — | — | — | — | — | — | — | — | — | — | 327,900 | +327,900 | 450,000 |
| Loans issued in advance for the requirements of the following year | — | 6,370,000 | +6,370,000 | — | 2,210,000 | +2,210,000 | — | — | — | — | — | — | — |
| Other Loans | 5,223,700 | 5,158,999 | *−64,701* | 5,437,100 | 5,309,098 | *−128,002* | 4,495,000 | 2,855,103 | *− 1,639,897* | 4,810,000 | 3,495,000 | *− 1,315,000* | 3,000,000 |
| Total Receipts | 21,423,700 | 29,535,585 | +8,111,885 | 20,937,100 | 31,157,401 | +10,220,301 | 20,320,000 | 27,925,319 | +7,605,319 | 20,310,000 | 29,482,900 | +9,172,900 | 25,100,000 |
| Disbursements:— | | | | | | | | | | | | | |
| Capital Outlay on Railways and Irrigation Works | 6,832,700 | 5,747,714 | *− 1,084,986* | 6,239,700 | 5,187,962 | *− 1,051,738* | 6,041,500 | 5,082,747 | *− 958,753* | 6,527,200 | 7,077,300 | +550,100 | 8,813,200 |
| Discharge of Debt | 179,400 | 209,400 | +30,000 | 3,067,900 | 4,067,900 | +1,000,000 | 2,776,200 | 2,816,200 | +40,000 | 6,477,600 | 6,477,600 | — | 1,781,200 |
| Other Payments (net) | 18,780,900 | 18,763,279 | *− 17,621* | 19,102,900 | 18,003,638 | *− 1,099,262* | 18,819,600 | 18,333,350 | *− 486,250* | 18,904,000 | 25,945,100 | +7,041,100 | 18,786,100 |
| Total Disbursements | 25,793,000 | 24,720,393 | *− 1,072,607* | 28,410,500 | 27,259,500 | *− 1,151,000* | 27,637,300 | 26,232,297 | *− 1,405,003* | 31,908,800 | 39,500,000 | +7,591,200 | 29,380,500 |
| Increase or Decrease of Balance. | *− 4,369,300* | +4,815,192 | +9,184,492 | *− 7,473,400* | +3,897,901 | +11,371,301 | *− 7,317,300* | +1,693,022 | +9,010,322 | *− 11,598,800* | *− 10,017,100* | +1,581,700 | *− 4,280,500* |
| Closing Balance | 3,328,689 | 12,799,090 | +9,470,401 | 5,265,897 | 16,696,991 | +11,431,094 | 8,738,218 | 18,390,013 | +9,651,795 | 6,721,849 | 8,372,900 | +1,651,051 | 4,092,400 |

## STATEMENT H.

(1)—IMPORTS, EXPORTS, AND ABSORPTION OF BRITISH GOLD COIN, FROM 1901-02 to 1912-13.

| Years. | Imports. | | | Exports. | Net Imports. | Net issues from(+) or Net Receipts into (—) Government Reserves and Treasuries (Columns (7) and (8) of Statement H (2) below). | Net Absorption. | | |
|---|---|---|---|---|---|---|---|---|---|
| | Tendered to Government. | Not so Tendered. | Total. | | | | After passing through Government Reserves and Treasuries. | Direct Absorption. | Total. |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) = (1) − (4) ± (6) | (8) = (2) | (9) = (5) ± (6) |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 1901-02 - - | | | 3,517,000 | 1,762,000 | 1,755,000 | *—778,000* | | | 977,000 |
| 1902-03 - - | | | 5,812,000 | 766,000 | 5,046,000 | *—2,894,000* | | | 2,152,000 |
| 1903-04 - - | | | 8,656,000 | 4,358,000 | 4,298,000 | *—1,015,000* | | | 3,283,000 |
| 1904-05 - - | | | 8,690,000 | 5,718,000 | 2,972,000 | *—29,000* | | | 2,943,000 |
| 1905-06 - - | 2,964,000 | 1,030,000 | 3,994,000 | 7,106,000 | *—3,112,000* | +6,909,000 | 2,767,000 | 1,030,000 | 3,797,000 |
| 1906-07 - | 4,165,000 | 1,196,000 | 5,361,000 | 410,000 | 4,951,000 | +184,000 | 3,939,000 | 1,196,000 | 5,135,000 |
| 1907-08 - - | 5,261,000 | 1,185,000 | 6,446,000 | 12,000 | 6,434,000 | +951,000 | 6,200,000 | 1,185,000 | 7,385,000 |
| 1908-09 - - | 75,000 | 1,004,000 | 1,079,000 | 454,000 | 625,000 | +2,811,000 | 2,428,000 | 1,004,000 | 3,432,000 |
| 1909-10 - - | 7,139,000 | 2,102,000 | 9,241,000 | 28,000 | 9,213,000 | *—6,339,000* | 772,000 | 2,102,000 | 2,874,000 |
| 1910-11 - | 7,626,000 | 914,000 | 8,540,000 | 378,000 | 8,162,000 | *—59,000* | 7,189,000 | 914,000 | 8,103,000 |
| 1911-12 - - | 17,053,000 | 1,289,000 | 18,342,000 | 114,000 | 18,228,000 | *—9,344,000* | 7,595,000 | 1,289,000 | 8,884,000 |
| 1912-13 - - | 16,939,000 | 856,000 | 17,795,000 | 2,559,000 | 15,236,000 | *—4,135,000* | 10,245,000 | 856,000 | 11,101,000 |
| Total - - | | | 97,473,000 | 23,665,000 | 73,808,000 | | | | 60,066,000 |

## STATEMENT H.—*continued.*

(2.)—GOLD HELD IN RESERVES AND TREASURIES OF THE GOVERNMENT OF INDIA FROM 1901-02 to 1912-13.

| Year. | In Paper Currency Reserve. (1) | In Gold Standard Reserve. (2) | In Treasuries. (3) | Total. (4) | Form in which Gold shown in column (4) was held. | | Net Issues or Net Receipts of British Gold Coin during year. | | Net Issues or Net Receipts of other Gold during year. | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | British Gold Coin. (5) | Bullion and Foreign Gold Coin. (6) | Net Issues. (7) | Net Receipts. (8) | Net Issues. (9) | Net Receipts. (10) |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 1901-02 - - | 7,019,000 | — | 87,000 | 7,106,000 | 7,003,000 | 103,000 | — | 778,000 | 787,000 | — |
| 1902-03 - - | 9,859,000 | — | 119,000 | 9,978,000 | 9,897,000 | 81,000 | — | 2,894,000 | 22,000 | — |
| 1903-04 - - | 10,783,000 | — | 134,000 | 10,917,000 | 10,912,000 | 5,000 | — | 1,015,000 | 76,000 | — |
| 1904-05 - - | 10,739,000 | — | 210,000 | 10,949,000 | 10,941,000 | 8,000 | — | 29,000 | — | 3,000 |
| 1905-06 - - | 3,826,000 | — | 219,000 | 4,045,000 | 4,032,000 | 13,000 | 6,909,000 | — | — | 5,000 |
| 1906-07 - - | 3,640,000 | 22,000 | 211,000 | 3,873,000 | 3,848,000 | 25,000 | 184,000 | — | — | 12,000 |
| 1907-08 - - | 2,713,000 | — | 209,000 | 2,922,000 | 2,897,000 | 25,000 | 951,000 | — | — | — |
| 1908-09 - - | 23,000 | — | 63,000 | 86,000 | 86,000 | — | 2,811,000 | — | 25,000 | — |
| 1909-10 - - | 6,202,000 | — | 223,000 | 6,425,000 | 6,425,000 | — | — | 6,339,000 | — | — |
| 1910-11 - - | 6,186,000 | — | 298,000 | 6,484,000 | 6,484,000 | — | — | 59,000 | — | — |
| 1911-12 - - | 15,554,000 | — | 274,000 | 15,828,000 | 15,828,000 | — | — | 9,344,000 | — | — |
| 1912-13 - - | 19,583,000 | — | 380,000 | 19,963,000 | 19,963,000 | — | — | 4,135,000 | — | — |

# STATEMENT I.

## Minimum Rates of Discount of the Bank of Bengal and Bank of Bombay 1901 to 1913.

| Month. | 1901. | | 1902. | | 1903. | | 1904. | | 1905. | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Bank of Bengal. | Bank of Bombay. | Bank of Bengal. | Bank of Bombay. | Bank of Bengal. | Bank of Bombay. | Bank of Bengal. | Bank of Bombay. | Bank of Bengal. | Bank of Bombay. |
| January - | 7 | 7 | 5, 6, 7 | 5, 6, 7 | 5, 6, 7 | 5, 6, 7 | 6, 7 | 6 | 6 | 5 |
| February | 7, 8 | 7, 8, 9 | 7, 8 | 7, 8 | 7, 8 | 7, 8 | 7 | 6, 7, 6 | 6, 7 | 5, 6, 7 |
| March - | 8, 7 | 9, 8, 7 | 8, 7 | 8, 7 | 8, 7 | 8, 7 | 7, 6 | 6, 5 | 7, 8, 7 | 7, 8, 7 |
| April - | 7, 6, 7 | 7, 6, 7 | 7, 6 | 7, 6 | 7, 6, 5 | 7, 6 | 6, 5 | 5 | 7, 6, 5, 4 | 7, 6, 5 |
| May - | 7 | 7 | 5 | 6, 5 | 5, 6 | 6, 7 | 5, 4 | 5, 4 | 4 | 5 |
| June - | 7, 6, 5, 4 | 7, 6, 5, 4 | 5, 4 | 5, 4 | 6, 5 | 7, 6, 5 | 4, 3 | 4, 3 | 4 | 5 |
| July - | 4. 3 | 4, 3 | 4, 3 | 4, 3 | 5, 4 | 5, 4 | 3 | 3 | 4, 3 | 5, 4, 3 |
| August - | 3, 4 | 3, 4 | 3 | 3 | 4, 3 | 4, 3 | 3 | 3 | 3, 4 | 3, 4 |
| Sept. - | 4, 5 | 4 | 3 | 3 | 3 | 3 | 3 | 3 | 4, 5 | 4 |
| October - | 5, 4 | 4 | 3. 4 | 3 | 3 | 3 | 3, 4, 5 | 3, 4, 5 | 5 | 4 |
| Nov. - | 4 | 4 | 4 | 3, 4 | 3 | 3 | 5, 6 | 5 | 5, 6 | 4, 5 |
| December | 4, 5 | 4, 5 | 4, 5 | 4, 5 | 3, 4, 5, 6 | 3, 4, 5, 6 | 6 | 5 | 6, 7 | 6, 7 |

| Month. | 1906. | | 1907. | | 1908. | | 1909. | |
|---|---|---|---|---|---|---|---|---|
| | Bank of Bengal. | Bank of Bombay. | Bank of Bengal. | Bank of Bombay. | Bank of Bengal. | Bank of Bombay. | Bank of Bengal. | Bank of Bombay. |
| January - - - | 7, 8 | 7, 8 | 9 | 9 | 6, 7, 8, 9 | 6, 7, 8 | 6, 7, 8 | 6, 7 |
| February - - | 9 | 9 | 9 | 9 | 9 | 8, 9 | 8 | 7 |
| March - - - | 9, 8, 7 | 9, 8, 7, 6 | 9 | 9, 8 | 9, 8, 7 | 9, 8, 7 | 8, 7 | 7 |
| April - - - | 7, 6, 5 | 6, 7 | 9, 8, 7 | 8 | 7 | 7, 8 | 7, 6 | 7 |
| May - - - | 5, 6, 7, 6 | 7, 6 | 7, 6, 5 | 8, 7, 6 | 7, 6 | 8, 7 | 6, 5 | 7, 6 |
| June - - - | 6, 5, 4 | 6, 5 | 5 | 6, 7, 6, 5 | 6, 5 | 7, 6 | 5, 4 | 6, 5, 4 |
| July - - - | 4, 3 | 5, 4, 3 | 5, 4, 3 | 5, 4 | 5, 4, 3 | 6, 5, 4, 3 | 3 | 4, 3 |
| August - - - | 3, 4, 5 | 3, 4 | 3 | 3 | 3 | 3 | 3 | 3 |
| September - - | 5, 6, 7 | 4, 5 | 3, 4, 5 | 3, 4 | 3, 4 | 3 | 3, 4 | 3 |
| October - - | 7, 6 | 5 | 5 | 4 | 4 | 3, 4 | 4 | 3 |
| November - - - | 6, 7, 8 | 5, 6, 7, 8 | 5, 6 | 4, 5 | 4, 5, 6 | 4 | 4, 5 | 3, 4, 5, 6 |
| December - - | 8, 9 | 8, 9 | 6 | 5, 6 | 6 | 4, 6 | 5, 6 | 6 |

| Month. | 1910. | | 1911. | | 1912. | | 1913. | |
|---|---|---|---|---|---|---|---|---|
| | Bank of Bengal. | Bank of Bombay. | Bank of Bengal. | Bank of Bombay. | Bank of Bengal. | Bank of Bombay. | Bank of Bengal. | Bank of Bombay. |
| January - - - | 6 | 6 | 7 | 7 | 5, 6, 7, 8 | 5, 6, 7 | 7, 8 | 8 |
| February - - - | 6 | 6 | 7, 8 | 7 | 8 | 8 | 8, 7 | 8 |
| March - - | 6, 7 | 6, 7 | 8, 7 | 7 | 8, 7, 6 | 8, 6 | 7 | 8 |
| April - - | 7 | 7 | 7 | 7 | 6 | 6 | 7, 6 | 8, 7 |
| May - - - | 7, 6 | 7, 6 | 7, 6 | 7, 6 | 6, 5 | 6, 5 | | |
| June - - - | 6, 5, 4 | 6, 4 | 5, 4 | 5, 4 | 5, 4 | 5, 4 | | |
| July - - - | 3 | 4, 3 | 4 | 4, 3 | 4, 3 | 4, 3 | | |
| August - - - | 3 | 3 | 4, 3 | 3 | 3 | 3 | | |
| September - - | 3, 4 | 3 | 4, 5 | 3 | 3, 4 | 3 | | |
| October - - - | 4, 5 | 3, 4 | 5 | 3, 4 | 4, 5 | 3, 4 | | |
| November - - | 5, 6 | 4, 5, 6 | 5 | 4 | 5, 6, 7 | 4, 5, 6 | | |
| December - - | 7 | 6, 7 | 5 | 4, 5 | 7 | 6, 7, 8 | | |

# APPENDIX III.

MEMORANDUM AND STATEMENTS ON THE GOLD STANDARD RESERVE, submitted by Mr. L. ABRAHAMS, C.B., Assistant Under Secretary of State for India.

## I.

*General.*

1. The Gold Standard Reserve was established in accordance with the following recommendation of the Indian Currency Committee of 1898–99 :—

> "We also recommend that any profit on the coinage of Rupees should not be credited to the revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances."

The form, location and amount of the reserve from 31st March 1901 to 31st March 1913 are shown in Statement A (page 97), and further particulars regarding the constitution of the portion held in England on the 31st March 1913, and the net profit realised on investments up to that date, are given in Statement B (page 98).

The chief questions for consideration regarding the Reserve appear to be those relating to :—

(1.) The purposes for which it should be used.
(2.) The form in which it should be held.
(3.) Its location, that is, whether it should be held in England or India.
(4.) Its amount, that is, whether it should be allowed to accumulate indefinitely and, if not, what limit should be placed on its accumulation.

## II.

*Purposes for which the Reserve should be used.*

2. The Report of the Committee of 1898–99 affords a general indication of their views as to the purpose for which they considered, or would have considered if they had specially dealt with the point, that the Reserve should be used. In paragraph 59 they say :—

> "We regard it as the principal use of a Gold Reserve that it should be freely available for foreign remittances whenever the exchange falls below specie point [that is, presumably, gold exporting point], and the Government of India should make its gold available for this purpose when necessary, under such conditions as the circumstances of the time may render desirable. For example, the Government of India might, if the exchange showed a tendency to fall below specie point, remit to England a portion of the gold which it may hold, a corresponding reduction being made in the drawings of the Secretary of State."

3. This remark indicates in very general terms the Committee's view of the purposes to be served by any reserve held for the support of exchange. But it was not made with special reference to the Gold Standard Reserve, and I can say from direct personal knowledge that the Committee did not consider what would be the best procedure for enabling the Gold Standard Reserve to serve the purpose indicated in general terms in the passage quoted. If any opinion had been expressed on that point in 1899, it would possibly have been of little value in 1913.

4. As a matter of fact there is, I believe, now a general consensus of opinion that the Reserve, so far as held to provide against a fall in

Exchange, should be used for two purposes, namely, to supplement temporarily the resources in London of the Secretary of State at times when he is unable to sell Council Bills except below specie exporting point, and to serve as a fund for enabling an adverse balance of trade to be liquidated without a fall in exchange. The only occasion on which it has been necessary to use the Reserve for these purposes was in 1907–08, when it was used to the extent of 933,749*l.* for the former purpose and 8,058,000*l.* for the latter, the procedure in the latter case being that Bills drawn by the Government of India on the Secretary of State and payable in London were offered for sale by the Government of India in each week from 26th March to 10th September 1908, at the fixed rate of 1*s.* $3\frac{29}{32}$*d.* per rupee. Particulars of the sales will be found in Statement D (page 103).

5. A portion of the Reserve, known as the Indian Branch, is held in India, usually in rupees (*see* Statement A, page 97) and serves a different purpose from the portion held for the support of Exchange. The history of the Indian Branch and the reason for its existence are discussed in Section VI. below.

## III.

*The form in which the Reserve should be held.*

6. It is clear that so far as the Reserve is used to provide against a fall in Exchange, it must be held in a sterling form, that is, either in gold, in securities that may easily be sold for sterling, in money lent at short notice and repayable in sterling, or in bank deposits repayable in sterling. From time to time all these methods have been used. At present, as will be seen from Statement A (page 97), the portion of the Reserve held in England for the support of exchange is partly in securities, partly in money placed at short notice, and partly in gold. I believe that it is wise to hold the Reserve in these forms, though I think that some changes in detail might advantageously be made in the distribution. The advantage of holding a portion of the Reserve in securities and on loan is that, even allowing for the depreciation of securities, the profit is very large. It will be seen from Statement B (page 98) that up to the 31st March 1913 the total interest receipts amounted to 3,421,894*l.*, and the loss on the sale of securities and on the depreciation of those still held was 1,121,269*l.*, so that the net profit was 2,300,625*l.* It will, of course, be generally agreed that the profit would be bought too dear if the securities could not be readily realised when required. Statement B shows that the danger in this respect is not serious. Of the 15,945,669*l.*, shown as the market value of the securities held on the 31st March 1913, 10,989,504*l.* was in the form of securities due for early redemption at a fixed date, while 4,956,165*l.* consisted of securities which the borrowing Government is either not under obligation to repay or is to repay only at a comparatively distant date and which, therefore, could be realised only by sale in the market or to some other Government department such as the Commissioners for the Reduction of the National Debt. I am of opinion that the amount of securities of this latter class should be reduced as occasion offers, though in view of the large amount of the other resources at the disposal of the Secretary of State for the support of exchange, I think that this change might be made very gradually.* In this connection I may draw attention to Statement C, showing that the last purchase of securities not due for early redemption was in 1909–10 when on 25th May 1909, 500,000*l.* Consols were bought (*see* page 100).

* Since 31st March 1913 £666,045 (nominal) Consols have been sold, at an average price slightly exceeding $75\frac{1}{8}$, for 500,000*l.*; and the proceeds have been invested in short dated securities.

7. The existing orders relating to the form in which the portion of the Gold Standard Reserve held in London is to be kept, are contained in the Secretary of State's Despatch to the Government of India No. 76 (Financial), dated the 28th June 1912, which is printed in the collection of papers that I am handing in (*see* page 201). It will be seen that, from the date of that Despatch, profits on coinage and interest on investments which become available for the English portion of the Reserve are to be held in gold until the amount so held reaches 5,000,000*l.* I am of opinion that if, when this amount has been reached, it is possible to find suitable short-dated securities, such as Treasury

Bills and Exchequer bonds, in which to invest future receipts (including the proceeds of any permanent securities that may be realised), it will be an excess of caution to hold in gold more than 5,000,000*l*; more especially if, as I hope will be the case, the present practice of holding a portion of the Paper Currency Reserve in gold in England is continued. If, as is possible, the supply of short-dated securities is so reduced that they cannot be obtained in sufficient amount for the purposes of the Reserve, then I think that it will be better to increase the holding of gold and of loans against security than the holding of Consols or other permanent stocks.

## IV.

*Location of the Reserve.*

8. It is stated in Section II. above that the two purposes for which the Reserve, so far as held for the support of exchange, should be used are the payment of a portion of the Secretary of State's disbursements, and the liquidation of the trade balances due by India to other countries. Payments of the former class must obviously be made in London, and payments of the latter class are regularly made in, or through, London. It would, therefore, seem that there is *primâ facie* an overwhelming balance of advantage in holding in London the part of the reserve now under consideration. This course has been followed since the reserve was established.*

9. It should be mentioned, however, that a Resolution proposed by Sir V. D. Thackersey in the Legislative Council in Calcutta on 22nd March 1912, in favour of holding a substantial part of the Reserve in gold in India, received considerable support. It seems desirable to mention some of the considerations against this change.

A. It is obvious that such portion of the Reserve as might be held in a sterling form in India, could scarcely be held either in securities or in loans or deposits repayable in sterling. It would therefore be held in gold. Since India is to a very small extent a gold producing country, the greater part, if not the whole, of any gold held in India in the Reserve would be imported, and would, in all probability, reach India either from England or from Australia. There would obviously be some disadvantage in an arrangement necessitating the expense of sending from England to India gold which is intended *ex hypothesi* to be used only for the purpose of being re-exported from India to England. The same consideration would apply to gold imported from Australia, because the cost of freight and insurance on gold from Australia to India is, I believe, precisely the same as from Australia to England and from India to England, so that, if gold intended for the Reserve were sent in the first instance from Australia to India, retained in India for a time, and then sent to England, the freight and insurance charges would be paid twice instead of once.

B. The holding in gold in India of any considerable part of what is now held in securities in England would obviously cause a serious loss of interest.

C. When the moment arrived for using in London gold held in India, a delay of about three weeks would occur while it was being shipped to London. In critical times this might be a considerable disadvantage.

D. Far more important than the considerations mentioned, is the uncertainty as to the extent to which gold held in the Reserve in India would really be used for the support of exchange. Presumably such gold, so far as not shipped to the Secretary of State to be used towards meeting the general disbursements of the India Office, would be issued to the public in exchange for rupees in the hope that it would be exported to liquidate the balance of trade indebtedness. It may be said with confidence that, in the absence of special regulations (a matter on which something is said on the next page), much of the amount issued would certainly be used for quite other purposes. The evidence in support of this statement is partly of a general nature, and partly derived from the actual course of events in 1907–08,

* The amounts shown in Column 6 of Statement A on page 97 represent profits on coinage temporarily held in gold in India pending remittance to England for investment.

the one period since the establishment of the reserve when special measures for the support of exchange has been necessary.*

(*a*) The evidence of a general nature is as follows. Since the practice of issuing gold to the public in exchange for Rupees was instituted, the rate at which issues have been made has been 1*l.* = Rs. 15, or 1s. 4*d.* per Rupee, and it is clear for reasons which I can give, if necessary, that, if sovereigns are to be issued at a time of an unfavourable trade balance for the purpose of preventing exchange from falling below gold exporting point, the rate at which they are to be issued must not be more unfavourable to the recipient than this established rate. At such a time the price in India of sovereigns other than those issued from Government reserves would be appreciably in excess of Rs. 15 each, the price corresponding to an exchange rate of 1*s.* $3\frac{29}{32}$*d.* per Rupee being Rs. 15, annas $1\frac{1}{2}$, per sovereign. It would, therefore, be profitable to anyone in India who desired sovereigns for use in India, to get them from Government treasuries rather than from any other source, and it may be taken as certain that, in the absence of special restrictive regulations, the whole internal demand would be met by drawing on Government treasuries and reserves, so that, up to the limit of that demand, sovereigns issued from the Gold Standard Reserve would pass into use in India for circulation, melting, or hoarding, instead of being exported to pay foreign obligations.

(*b*) The evidence derived from the course of events in 1907–08 will be found in Statement D in the columns headed "Diminution of Government Stock of Gold in India" and "Exports of Sovereigns and other British Gold Coins from India on private account" (page 103). It will be seen that the sovereigns held in Government treasuries and reserves in India decreased between September 1907 and December 1908 by 4,394,000*l.* of which 215,000*l.* represented light coin sent by the Government of India to the Secretary of State, and the remainder (4,179,000*l.*) issues to the public in India. The export on private account during the same period amounted to 249,942*l.*: that is to say, 6 per cent. of the total amount issued by the Government to the public in India during this adverse period was exported and so served the primary purpose for which, in the opinion of the Fowler Committee, reserves should be held, while 94 per cent. was used for other purposes.

10. It might perhaps be possible, if the sterling part of the Gold Standard Reserve were held in gold in India, to introduce restrictive regulations for the purpose of securing that any sovereigns issued therefrom at a time of weak exchange should be exported for the purpose of meeting trade indebtedness and for no other purpose. The framing and enforcing of such regulations would possibly be a matter of considerable difficulty. There would always be a risk of evasion, and I think that such a risk should not be undertaken in view of the enormous sacrifices that India has made, and is making, in order to build up its reserve for the maintenance of exchange. I believe that the extent of these sacrifices is sometimes very imperfectly realised, and it seems worth while to give the following brief particulars to illustrate their magnitude. Under existing orders, as shown below, the sterling part of the Gold Standard Reserve is to accumulate to not less than 25,000,000*l.* This represents money which, if not put by for the maintenance of exchange, would presumably be used for capital expenditure on railways or irrigation works. What could be done for such a sum is shown by the fact that 25,000,000*l.* represents approximately the total cost up to the 31st March 1912 of the Bengal-Nagpur Railway, which produced a net revenue in 1911–12 of 1,164,000*l.*, is about 2,600 miles long, and has been, I believe, of incalculable value in increasing the prosperity and the security against famine of the vast area that it serves. Expressed in terms of irrigation works, 25,000,000*l.* represents 70 per cent. of the capital cost of the whole of the Major Irrigation Works in India up to the 31st March 1912, which produced a revenue in 1911–12 of more than 2,500,000*l.*, and of the economic and productive value of which it is scarcely necessary to say anything. The appropriation for the maintenance of exchange, of a sum representing so vast a potentiality of financial, economic, and protective

* I omit as insignificant the sale in September 1909 of Bills on London for 156,000*l.* under the conditions mentioned at the end of Section II.

advantage to India is probably not excessive; but it is clear that, when so great a fund is being set aside in order to secure a particular result, it would be unwise to incur the risk of any substantial portion of its being used for other purposes, such as to enable hoarders or makers of gold ornaments to buy gold at a few pence less per ounce than they would have to pay if they could not get it from the Gold Standard Reserve.

## V.

*Amount of the Reserve.*

11. The question of the amount up to which the London Branch of the Reserve should be allowed to accumulate has been discussed at various times in the last nine years. Some of the opinions expressed by responsible authorities are mentioned in Lord Morley's Financial Despatch No. 82 of 2nd July 1909, which is included in the collection of papers that I am handing in (*see* page 175). The present position is, that the whole profits on coinage and interest on investments have been added to the London Branch of the Reserve with the exception of

(1) about 1,000,000*l.* used for capital expenditure on railways in 1907–08, in accordance with the recommendation made in that year by a Committee on railway administration and finance, whose interim report is included in the collection of papers that I hand in, and

(2) the amount held in rupees in India under the arrangement described in Section VI. below.

12. In his Despatch No. 76 of 28th June 1912 (page 201), the Secretary of State decided that future profits on coinage and interest on investments becoming available for addition to the London Branch of the Reserve shall be added thereto in full, and no part used for any other purpose, such as capital expenditure on railways, until the London Branch shall have reached 25,000,000*l.*

13. It would be possible to collect arguments from various sources regarding the sufficiency of the figure mentioned, but I think that the best guidance can be obtained from the experience of 1907–08. The exceptional severity of the adverse conditions of that period is set forth in Lord Morley's Despatch No. 82 of 2nd July 1909 and its enclosure (page 201), which summarises the figures relating to the foreign trade of India from 1st November to 31st October in each year from 1896–97 to 1907–08, and shows that, although the period included two severe famines, the only year in which there was an adverse balance of trade was 1907–08. The statistics of this period thus illustrate the effects of as severe a period of adversity as it is reasonable to anticipate, and the best method of deciding the amount up to which the sterling part of the Gold Standard Reserve should be allowed to accumulate before a portion of future receipts from profits of coinage is used for other purposes, such as capital expenditure on railways and irrigation works, seems to be—

(1.) To calculate the exceptional demands made in 1907–08 on the resources available for the support of exchange.

(2.) To base the decision as to the further accumulation of the Reserve on the view that it, together with the other resources available for the support of exchange, should exceed by a liberal margin the amount of the exceptional demands calculated under (1).

In making a calculation of the kind suggested in (1) it will be convenient to deal separately with transactions in England and India respectively.

14. As regards transactions in England I submit in Statement E (page 104) particulars of all cash receipts and disbursements of the India Office for each month from 1st September 1907 (which is certainly the earliest date at which the adverse period can be said to have begun, since in the previous month Council Bills had been sold for a large amount and the stock of gold held by the Government of India had been increasing) to the 31st December 1908, which may be taken as the end of the adverse period, since from that time Council Bills were again sold steadily, and no further measures were taken for the support of exchange.

15. The significance of the rather copious particulars in Statement E is brought out in the following summary:—

INDIA OFFICE CASH TRANSACTIONS, 1st September 1907 to 31st December 1908 (Summary of Statement E., page 104).

GOLD STANDARD RESERVE.

| | £ | £ | | £ |
|---|---|---|---|---|
| Opening Cash balance (apart from securities) | | 38,406 | Invested | 2,823,563 |
| Cash Receipts: | £ | | Payments to meet bills drawn by the Government of India on Secretary of of State, and sold to bankers, merchants, &c., in India | 8,058,000 |
| Dividends and remittances from India | 954,855 | | Temporarily transferred to general India Office balance for meeting Secretary of State's requirements. (*See* "Other Transactions" below) | 933,749 |
| Securities sold or repaid on maturity | 10,822,051 | 11,776,906 | Closing Cash balance. [The market value of the sterling securities at this date was 5,104,078*l.*] | — |
| Total | | 11,815,312 | Total | 11,815,312 |

OTHER TRANSACTIONS.

| | £ | £ | | £ |
|---|---|---|---|---|
| Opening balance | | 5,146,111 | Railways: Payments on Capital Account, including discharge of railway loans | 12,396,194 |
| Railways: Proceeds of railway loans | | 13,595,597 | Purchase of silver | 1,523,501 |
| General purposes: | £ | | General Purposes: Payments (less 933,749*l.* met by temporary transfer from Gold Standard Reserve, as shown above) | 23,656,241 |
| Receipts from sale of Council Bills and Transfers and Miscellaneous | 15,026,532 | | Closing balance | 5,222,304 |
| Gold withdrawn from Paper Currency Reserve | 4,530,000 | | | |
| Proceeds of India Bills issued for general purposes | 4,500,000 | 24,056,532 | | |
| Total | | 42,798,240 | Total | 42,798,240 |

16. The upper part of the summary shows that the Gold Standard Reserve was drawn upon to the extent of 8,050,000*l.* to meet bills sold in India towards enabling the unfavourable trade balance to be liquidated, and 933,749*l.* towards meeting the Secretary of State's requirements or 8,991,749 in all.

17. Regarding the exact amount of the exceptional demands included in the transactions shown in the lower part of the summary ("Other Transactions,") there is room for difference of opinion, but not to any very important extent. The correct figure appears to me to be 8,629,709*l.*, being the excess of the expenditure of 23,656,241*l.* for General Purposes over the receipts of 15,026,532*l.* received for such purposes from normal sources, and it will be noticed that the abnormal receipts from which this excess was met, namely 4,530,000*l.* withdrawn in gold from the Paper Currency Reserve, and 4,500,000*l.* received through the issue of India Bills, corresponds fairly closely to this amount, the difference being due to the fact that the amounts provided from these two sources proved to be slightly in excess of requirements as indicated by the comparatively large amount of the closing balance. I exclude from my calculations of "exceptional demands" the following sums shown in the summary:—

*A.* 1,199,403*l.*, representing the excess of the proceeds of railway loans over payments for railways on capital account. The reason for this exclusion is that, as explained in my Memorandum on "The General Balances of the Government of India on the Sale of Council Bills and Transfers" the raising in England of railway loans in excess of the capital expenditure in England on railways in years in which there are no large balances to draw

upon, is necessitated by the fact that the loans raised in India and other resources in India specially allocated for capital expenditure, ordinarily fall short of the capital outlay in India.

*B.* 1,523,501*l.* paid for silver bought before the prospect of an adverse trade balance showed itself. If I give evidence as to the way in which the purchase of silver is regulated, I shall be able to show that the purchases which involved this payment were in excess of requirements, would not have been made if the system now in force of regulating purchases in accordance with the India Office Memorandum (page 188) enclosed in Lord Morley's Despatch No. 25 of 18th February 1910 had been in force in 1907, and would not be made on any future occasion on which the conditions existing in 1907 were reproduced.

18. I therefore calculate that the exceptional demands that had to be met in the sixteen months from September 1907 to December 1908 in consequence of the unfavourable state of exchange were as follows :—

| | £ |
|---|---|
| From Gold Standard Reserve (to meet Bills and to strengthen Treasury Balances) - - | 8,991,749 |
| Excess of payments for general purposes over normal receipts available for such purposes (as shown under " Other Transactions ") - | 8,629,709 |
| Total - | 17,621,458 |

19. Assuming that the strain experienced in the period mentioned is as great, or nearly as great, as it is reasonable to provide for, it would appear that even if the London Branch of the Gold Standard Reserve were the only resource at the disposal of the Secretary of State in England for meeting a fall in exchange, the present regulations which provide that it shall accumulate up to 25,000,000*l.*, and which contemplate that thereafter a portion of the profits of future coinage may be diverted to other purposes (leaving a portion to be added to the Reserve, together with the accruing interest, to provide for the growth of possible requirements), do not err on the side of rashness. As a matter of fact there appears to be no reason, unless a change of policy is made with regard to the Paper Currency Reserve, for not assuming that there will also be available at the commencement of any future period of adverse exchange, several millions in gold in the Paper Currency Reserve in England ready to be used, like the 4,530,000*l.* mentioned in the summary on the preceding page as having been so used in 1907–08, to supplement the Gold Standard Reserve.

20. Up to this point I have dealt only with the extent to which the exceptional demands for the support of exchange between September 1907 and December 1908 arose and were met in England. It might be held that the diminution during this period of the stock of gold held by the Government of India in India, as shown in Statement D (page 103) represents exceptional demands for the same purpose that arose and were met in India. For the reasons given in paragraph 4 (*b*) above, I think that this view is substantially incorrect. It seems clear from the figures referred to in that paragraph and given in detail in the penultimate column of Statement D. that in 1907–08 the gold held in India was of little, if any, immediate use for the support of exchange and that practically the whole of the exceptional demands for the support of exchange were met in England and were represented by the figure of 17,621,458*l.* given above. Any difference of opinion on this point does not appear to affect materially the argument regarding the amount required for the Gold Standard Reserve in England. There is no reason to doubt that at the commencement of any future exchange crisis, a certain stock of gold will be held by the Government of India in the Paper Currency Reserve in India, as was the case in 1907–8, and will serve to the same extent (if any) as the gold then held to meet demands arising in India for the support of exchange. If this is so, the calculation in support of the argument that 25,000,000*l.* is enough to meet demands for the same purpose arising in England is unaffected.

21. Even if the Commission does not accept the particular calculation above as to the amount to which the London Branch of the Gold Standard Reserve should be allowed to accumulate before profits on further coinage are used for capital expenditure, they may perhaps accept the view that some limit should be fixed, and that when that limit has been reached a portion of future profits should be used for the purpose mentioned. Failing this, there will be a danger that money urgently required for the development of India and for its security against famine, will be uneconomically employed by being added unnecessarily to the Gold Standard Reserve.

## VI.

*Indian Branch of the Reserve.*

22. Statement A (page 97) shows that since 1906 a portion of the Gold Standard Reserve (now known as the Indian Branch of the Reserve) has been held in India in silver. The recognised normal amount to be so held is six crores of rupees (4,000,000*l.*), though for special reasons this figure has often been departed from. For the first few months the amount so held was in partially coined rupees. Lord Morley's Despatch of 16th November 1906, No. 135, page 146, sanctioned a proposal of the Government of India that it should be held in rupees. Under an arrangement proposed in paragraph 8 of the Letter from the Government of India, No. 48, of 29th February 1912, page 195, and accepted by the Secretary of State in his Despatch, No. 76 (Financial), of 28th June 1912, page 201, a portion of the Indian branch of the Reserve will occasionally be held for a few months in the year in gold in India. The reason for the establishment of the Indian Branch was that in 1906 the Government of India (*see* their Letter of 26th April 1906, Appendix V., page 137,) wished to increase their holding of rupees and of silver ready for coinage, and thought that the cost could be met advantageously, and without prejudice to the future maintenance of exchange, from money that would otherwise have gone to the sterling branch of the Gold Standard Reserve. Their proposal to this effect was approved by the Secretary of State. The advantage of what was done in 1906 arose from the fact that, if the additional silver then required had not been bought from the resources of the Gold Standard Reserve, only a small part of its cost could have been met from the balances of the Secretary of State and the Government of India, and it would therefore have been necessary to pay a considerable portion from the gold held in the Paper Currency Reserve. This was thought undesirable at the time, because the stock of gold in the Paper Currency Reserve was comparatively low, and it seemed more advantageous to avoid reducing it than to secure a corresponding increase in the securities of the Gold Standard Reserve. The force of this consideration has now passed away, owing to the great increase in the circulation of currency notes and in the amount of gold that can be, and is, held in the Paper Currency Reserve; and, if there were no other consideration affecting the matter, there would be much to be said for the view that the right course would now be to transfer to the Paper Currency Reserve all the rupees held in the Gold Standard Reserve against a corresponding transfer of sovereigns in the other direction

23. There are, however, two other points to be borne in mind:—

(A.) In a Letter of the 29th February 1912, page 195, Appendix V., the Government of India make the following remarks:—"Our Gold "Standard Reserve silver is a bulwark against hasty coining. It "supplements our general stock of rupees when the latter is running low, "it gives us time to buy silver at discretion, or if the stringency is "temporary, it enables us to carry through without fresh coining until "the return of rupees from circulation recommences." I think that the effect of these remarks is mainly that, if the standard of the amount of rupees to be held in the Paper Currency Reserve is rather too low, the presence of rupees in the Indian branch of the Gold Standard Reserve supplements the deficiency. But it would seem that the deficiency could be removed with greater directness and simplicity and less liability to misunderstanding by

raising the standard of rupees to be held in the Paper Currency Reserve. On this view, this particular justification for the existence of the Indian branch of the Gold Standard Reserve would not have very great force.

(B.) There is a wholly different justification, which seems to have great force. I fear that its explanation must be a little intricate. From time to time there is a trade demand for Council Bills and Transfers considerably in excess of what the Government of India can meet from their Treasury balances. The usual method of dealing with such a demand is as follows :—

(1.) The Secretary of State responds to it by selling Bills and Transfers; as indeed he is bound to do, under the Notification issued by Mr. Brodrick in 1904, when the demand is for Bills at 1*s.* 4$\frac{1}{8}$*d.* the rupee.

(2.) Except in circumstances such as are described immediately below, he transfers the proceeds of his sales in sovereigns to the portion of the Paper Currency Reserve held in England (or, in money market language, "earmarks" sovereigns), and thus enables the Government of India to place themselves in funds for meeting the Bills and Transfers either by the issue of additional notes against the "earmarked" gold or by the withdrawal of a corresponding amount in rupees from the portion of the Paper Currency Reserve held in India.

24. Indian interests would be liable to be injured if this procedure were followed, either at a time when the Secretary of State has in hand an operation (such as the issue of a loan or the renewal of a large block of debenture bonds) of which the success might be prejudiced by sudden stringency in the London money market or at a time when stringency already exists and an increase of it is likely to react on trade generally, including Indian trade. And this liability to injury would not be avoided, as might at first seem possible, if the Secretary of State had recourse to the simple expedient of refusing to sell Bills and Transfers, since such action would probably lead to large shipments of gold by the Exchange Banks from England to India, with an effect on the money market similar to that produced by "earmarking."

25. In circumstances such as these, Bills and Transfers sold by the Secretary of State are met by the Government of India from the rupees* in the Indian Branch of the Gold Standard Reserve; the sale proceeds are temporarily added by the Secretary of State to the London Branch; and disturbance of the London money market is avoided. This seems to be an extremely useful purpose served by the Indian Branch; so useful, indeed, as to justify the continued maintenance of the Indian Branch, unless an alternative method of securing the same object is introduced.

* Hitherto rupees have been taken from the Indian Branch as a loan, but the improved procedure described in the text has now been agreed to by the Secretary of State and the Government of India. (*See* Lord Crewe's Despatch, No. 13 (Financial), dated 24th January 1913, page 206.)

26. The one alternative method that has been suggested is to amend the Indian Paper Currency Act so as to allow the Secretary of State to make temporary additions to the London portion of the Paper Currency Reserve by other means than the "earmarking" of gold, *e.g.*, by adding sterling securities or by allocating to the Reserve deposits at the Bank of England or loans granted under suitable conditions to first-class borrowers against British or Indian Government securities. This scheme has some obvious advantages; its disadvantages are that—

The purchase at short notice of large quantities of securities suitable to be held for a few weeks or months and then sold would seldom be easy and might at times be impracticable.

The temporary holding, as part of the Reserve, of Bank of England deposits or loans on security, while open to no substantial objection—since scarcely any safer form of reserve can be found—might be regarded on account of its novelty with suspicion as a form of "juggling with the Reserve." This objection would certainly be diminished, perhaps removed, if the scheme were recommended by so authoritative a body as the present Royal Commission.

27. As it is possible that the Commission may recommend, and His Majesty's Government may approve, the abolition of the Indian Branch of the Gold Standard Reserve, it may be well to say something of the steps by which this measure could be carried out.

28. The first step would naturally be to transfer simultaneously (1) all the rupees now in the Gold Standard Reserve to the Paper Currency Reserve, and (2) an equivalent amount in sovereigns from the Paper Currency Reserve to the Gold Standard Reserve. It would be necessary to decide at the same time what was to be done with the sovereigns. One alternative would be to hold them in India, to be shipped to the Secretary of State on the next occasion of a serious fall in exchange. Another alternative would be to hold them in India to be issued to the public in exchange for rupees on any such occasion, under such regulations as might seem best calculated to ensure that, when so issued, they would be used for export in liquidation of an adverse trade balance. If the first of these alternatives were adopted, the Indian branch of the Reserve would serve the same purpose as the London branch, viz., to support exchange during unfavourable trade conditions. This would also be the case under the second alternative, provided that the regulations suggested were really effective, a point of which the importance is sufficiently illustrated by what is said on page 90. A third alternative would be to send the sovereigns to England as soon as they were transferred from the Paper Currency Reserve, and either to hold them at the Bank of England, apart from the Bank's general reserve, or to buy with them short dated securities.

# Statement A.

## Amount, Composition, and Location of the Gold Standard Reserve 1901 to 1913.

| Date. | England. | | | | India. | | | | Total England and India. |
|---|---|---|---|---|---|---|---|---|---|
| | Securities at Market value. | Cash at Short notice. | Gold deposited at the Bank of England. | Total. | Loans and Book credits. | Gold. | Silver. | Total. | |
| | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. |
| **1901.** | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 31st March | — | — | — | — | 1,830,000 | 1,200,000 | — | 3,030,000 | 3,030,000 |
| 30th June | 499,648 | — | — | 499,648 | 1,842,589 | 1,097,776 | — | 2,940,365 | 3,440,013 |
| 30th September | 993,279 | 247 | — | 993,032 | 1,841,383 | 597,710 | — | 2,439,093 | 3,432,125 |
| 31st December | 1,008,424 | — | — | 1,008,424 | — | 2,439,093 | — | 2,439,093 | 3,447,517 |
| **1902.** | | | | | | | | | |
| 31st March | 3,456,426 | — | — | 3,456,426 | — | — | — | — | 3,456,426 |
| 30th June | 3,546,647 | — | — | 3,546,647 | 38,485 | — | — | 38,485 | 3,585,132 |
| 30th September | 3,455,913 | — | — | 3,455,913 | 286 | 175,485 | — | 175,771 | 3,631,684 |
| 31st December | 3,467,372 | — | — | 3,467,372 | 2,005 | 260,771 | — | 262,776 | 3,730,148 |
| **1903.** | | | | | | | | | |
| 31st March | 3,652,371 | — | — | 3,652,371 | 1,027 | — | — | 1,027 | 3,653,398 |
| 30th June | 3,770,036 | — | — | 3,770,036 | 3,417 | 261,027 | — | 264,444 | 4,034,480 |
| 30th September | 3,860,878 | — | — | 3,860,878 | 1,954 | 3,417 | — | 5,371 | 3,866,249 |
| 31st December | 3,900,794 | — | — | 3,900,794 | 295,698 | 323,417 | — | 619,115 | 4,519,909 |
| **1904.** | | | | | | | | | |
| 31st March | 6,041,958 | — | — | 6,041,958 | 167,158 | 417 | — | 167,575 | 6,209,533 |
| 30th June | 6,367,518 | — | — | 6,367,518 | 25,825 | 440,417 | — | 466,242 | 6,833,760 |
| 30th September | 6,871,653 | — | — | 6,871,653 | 13,153 | 416 | — | 13,569 | 6,885,222 |
| 31st December | 6,951,743 | 499,604 | — | 7,451,347 | 76,740 | 200,416 | — | 277,156 | 7,728,503 |
| **1905.** | | | | | | | | | |
| 31st March | 8,387,976 | — | — | 8,387,976 | 152,000 | — | — | 152,000 | 8,539,976 |
| 30th June | 8,542,313 | — | — | 8,542,313 | 42,134 | 70,000 | — | 112,134 | 8,654,447 |
| 30th September | 8,870,106 | — | — | 8,870,106 | 34,234 | *70,000 | — | 104,234 | 8,974,340 |
| 31st December | 9,898,999 | — | — | 9,898,999 | 97,434 | 240,000 | — | 337,434 | 10,236,433 |
| **1906.** | | | | | | | | | |
| 31st March | 12,122,701 | — | — | 12,122,701 | 286,879 | — | — | 286,879 | 12,409,580 |
| 30th June | 11,930,210 | — | — | 11,930,210 | 218,655 | — | 1,182,800 | 1,401,455 | 13,331,665 |
| 30th September | 11,897,180 | — | — | 11,897,180 | 247,956 | — | 2,301,867 | 2,549,823 | 14,447,003 |
| 31st December | 11,919,061 | — | — | 11,919,061 | †3,520,723 | — | 69,540 | 3,590,263 | 15,509,324 |
| **1907.** | | | | | | | | | |
| 31st March | 11,960,314 | — | — | 11,960,314 | 301,305 | 21,725 | 4,000,000 | 4,323,030 | 16,283,344 |
| 30th June | 12,826,396 | 13,964 | — | 12,840,360 | 139,717 | 90,000 | 4,000,000 | 4,229,717 | 17,070,077 |
| 30th September | 12,901,675 | — | — | 12,901,675 | 36,891 | 73,970 | 4,000,000 | 4,110,861 | 17,012,536 |
| 31st December | 13,208,489 | 13,810 | — | 13,222,299 | 60,044 | 263,349 | 4,000,000 | 4,323,393 | 17,545,692 |
| **1908.** | | | | | | | | | |
| 31st March | 12,978,839 | 1,131,223 | — | 14,110,062 | 310 | — | 4,000,000 | 4,000,310 | 18,110,372 |
| 30th June | 10,362,929 | 321,407 | — | 10,041,522 | 310 | — | 8,178,000 | 8,178,310 | 18,219,832 |
| 30th September | 6,029,204 | 76,777 | — | 6,105,981 | 310 | — | 12,058,000 | 12,058,310 | 18,164,291 |
| 31st December | 5,104,078 | — | — | 5,104,078 | ‡1,000,310 | — | 11,991,749 | 12,992,059 | 18,096,137 |
| **1909.** | | | | | | | | | |
| 31st March | 7,133,953 | 469,818 | — | 7,603,771 | 344 | — | 10,586,734 | 10,587,078 | 18,190,849 |
| 30th June | 9,699,589 | 711,272 | — | 10,410,861 | 344 | — | 7,786,734 | 7,787,078 | 18,197,939 |
| 30th September | 9,757,979 | 668,666 | — | 10,426,645 | 344 | — | 7,786,734 | 7,787,078 | 18,213,723 |
| 31st December | 10,450,141 | 1,017,192 | — | 11,467,333 | §2,000,344 | — | 4,786,734 | 6,787,078 | 18,254,411 |
| **1910.** | | | | | | | | | |
| 31st March | 12,695,713 | 3,010,528 | — | 15,706,241 | — | — | 2,534,302 | 2,534,302 | 18,240,543 |
| 30th June | 14,643,471 | 1,262,467 | — | 15,905,938 | — | — | 2,534,302 | 2,534,302 | 18,440,240 |
| 30th September | 14,423,104 | 1,423,691 | — | 15,846,795 | — | — | 2,534,302 | 2,534,302 | 18,381,097 |
| 31st December | 14,513,878 | 1,437,425 | — | 15,951,303 | — | — | 2,534,302 | 2,534,302 | 18,485,605 |
| **1911.** | | | | | | | | | |
| 31st March | 15,407,834 | 1,477,358 | — | 16,885,192 | — | — | 1,934,302 | 1,934,302 | 18,819,494 |
| 30th June | 15,368,740 | 1,442,658 | — | 16,811,398 | — | — | 1,934,302 | 1,934,302 | 18,745,700 |
| 30th September | 15,606,290 | 1,222,880 | — | 16,829,170 | — | — | 1,934,302 | 1,934,302 | 18,763,472 |
| 31st December | 15,958,904 | 973,434 | — | 16,932,338 | — | — | 1,934,302 | 1,934,302 | 18,866,640 |
| **1912.** | | | | | | | | | |
| 31st March | 16,087,722 | 1,073,710 | — | 17,161,432 | — | — | 1,934,302 | 1,934,302 | 19,095,734 |
| 30th June | 16,111,795 | 1,004,672 | — | 17,116,467 | — | — | 1,934,302 | 1,934,302 | 19,050,769 |
| 30th September | 13,889,833 | 3,234,107 | — | 17,123,940 | — | — | 2,100,000 | 2,100,000 | 19,223,940 |
| 31st December | 15,965,149 | 1,013,690 | 250,000 | 17,228,839 | — | — | 3,745,667 | 3,745,667 | 20,974,506 |
| **1913.** | | | | | | | | | |
| 31st March | 15,945,669 | 1,005,664 | 1,620,000 | 18,571,333 | — | — | 4,000,000 | 4,000,000 | 22,571,333 |

* The Gazette of India, 9th December 1905, gives the amount of gold held in India as 870,000*l.*, and the amount of Treasury Bills held in England as 1,200,000*l.* A transfer of 300,000*l.* to Gold Standard Reserve in England was, however, actually made on 28th September, and the sum was invested in Treasury Bills, raising the amount of the latter to 1,500,000*l.*

† Including 2,533,333*l.* temporary loan to the Government of India at 3½ per cent. interest.

‡ Including 1,000,000*l.* temporary loan to the Government of India at 3½ per cent. interest.

§ Including 2,000,000*l.* temporary loan to the Government of India.

# Statement B.

VALUATION OF THE SECURITIES HELD ON BEHALF OF THE GOLD STANDARD RESERVE ON 31ST MARCH 1913; INTEREST RECEIVED, LOSS ON SALE OF SECURITIES, DEPRECIATION, AND NET PROFIT TO SAME DATE.

| Security. | Nominal Value. | Cost Price. | Minimum Market Price on 31st March 1913. | Market Value. |
|---|---|---|---|---|
| Securities not due for early redemption:— | £ | £ | | £ |
| 2½ per cent. Consolidated Stock | 4,665,770 | 4,207,463 | 74½ | 3,475,998 |
| Local Loans 3 per cent. Stock | 200,000 | 195,106 | 85¼ | 170,500 |
| Guaranteed 2¾ per cent. Stock | 438,720 | 407,187 | 74½ | 326,847 |
| Transvaal Government 3 per cent. Guaranteed Stock, 1923–53 | 1,092,023 | 1,076,524 | 90 | 982,820 |
| Total | 6,396,513 | 5,886,280 | | 4,956,165 |
| Securities due for early redemption:— | | | | |
| British Treasury Bills: | | | | |
| Maturing 9th August 1913 | 400,000 | 392,603 | 98½ | 394,000 |
| Maturing 16th August 1913 | 1,000,000 | 980,890 | 98⅜ | 983,750 |
| Maturing 21st August 1913 | 1,000,000 | 980,784 | 98 5/16 | 983,125 |
| Exchequer 2¾ per cent. Bonds, redeemable 18th April 1913–15 | 50,000 | 50,032 | *99 | 49,675 |
| Exchequer 3 per cent. Bonds, redeemable 5th April 1915 | 2,885,600 | 2,874,984 | 99¼ | 2,863,958 |
| Exchequer 3 per cent. Bonds, redeemable 14th October 1916 | 4,000,000 | 4,000,000 | 99⅛ | 3,965,000 |
| Canada 3¾ per cent. Bonds, redeemable 1st July 1914–19 | 161,000 | 164,437 | 97 | 156,170 |
| Corporation of London 3¼ per cent. Debentures, redeemable 1st June 1914 | 50,000 | 50,001 | †99 11/16 | 49,977 |
| Corporation of London 3½ per cent. Debentures, redeemable 1st July 1915 | 45,000 | 45,451 | †100 | 45,384 |
| Corporation of London 3¼ per cent. Debentures, redeemable 10th April 1913 | 50,000 | 50,002 | †99 19s. 2d. | 50,745 |
| New Zealand 3½ per cent. Debentures, redeemable 31st December 1914 | 101,400 | 100,007 | 98 | 99,372 |
| New Zealand 3½ per cent. Debentures, redeemable 1st April 1915 | 45,000 | 45,170 | 98 | 44,100 |
| New Zealand 3½ per cent. Debentures, redeemable 1st July 1914 | 100,000 | 98,205 | 98 | 98,000 |
| Queensland 4 per cent. Bonds, redeemable 1st July 1915 | 95,000 | 97,067 | 99 | 94,050 |
| Queensland 4 per cent. Stock, redeemable 1st July 1915 | 55,000 | 56,208 | 99 | 54,450 |
| New South Wales 4 per cent. Bonds, redeemable 1st March 1915 | 4,000 | 4,105 | 99 | 3,960 |
| New South Wales 3½ per cent. Stock, redeemable 1st September 1918 | 113,000 | 112,442 | 95 | 107,350 |
| New South Wales Bills, maturing 16th May 1913 | 250,000 | 241,512 | 99⅜ | 248,438 |
| Southern Nigeria 4 per cent. Bonds, redeemable 15th September 1916 | 100,000 | 98,881 | 98 | 98,000 |
| Union of South Africa Bills, maturing 1st April 1913 | 600,000 | 577,500 | 100 | 600,000 |
| Total | 11,105,000 | 11,020,281 | | 10,989,504 |
| Grand Total | 17,501,513 | 16,906,561 | | 15,945,669 |
| Cash placed by the Secretary of State at short notice | | | | 1,005,664 |
| Gold deposited at the Bank of England | | | | 1,620,000 |
| Total | | | | 18,571,333 |
| | | | £ | £ |
| The dividends on investments, discount on Treasury Bills, and interest on loans at short notice received to 31st March 1913 amounted to | | | | 3,421,894 |
| The net loss on securities sold and redeemed to 31st March 1913 was | | | 160,377 | |
| The depreciation on securities on 31st March 1913, as shown above, was | | | 960,892 | |
| | | | | 1,121,269 |
| Net profit | | | | £2,300,625 |

* 17,500*l.* drawn for repayment on 18th April valued at par. † *Plus* accrued interest.

# Statement C.

SECURITIES BOUGHT, SOLD, AND DISCHARGED AT MATURITY, 1901–02 TO 1912–13.

| Description of Security. | Securities purchased. | | | Securities sold and discharged at Maturity. | | | |
|---|---|---|---|---|---|---|---|
| | | | | Sold. | | | Discharged at Maturity at Par. |
| | Nominal Amount. | Average Price. | Cost Price. | Nominal Amount. | Average Price. | Amount realised. | |
| | £ | £ s. d. | £ | £ | £ | £ | £ |
| **1901–02.** | | | | | | | |
| 2¾ p.c. Consolidated Stock | 3,667,295 | 94 3 10 | 3,454,245 | — | — | — | — |
| **1902–03.** | | | | | | | |
| 2¾ p.c. Consolidated Stock | 385,267 | 92 8 6 | 356,085 | | — | — | — |
| **1903–04.** | | | | | | | |
| 2½ p.c. Consolidated Stock | 1,991,196 | 86 16 0 | 1,728,399 | — | — | — | — |
| National War Loan 2¾ p.c. Stock | 322,896 | 97 9 10 | 314,790 | — | — | — | — |
| Local Loans, 3 p.c. Stock | 330,224 | 97 16 4 | 323,000 | — | — | — | — |
| Transvaal Government 3 p.c. Guaranteed Stock 1923–53. | 209,594 | 95 8 5 | 200,000 | — | — | — | — |
| | 2,853,910 | — | 2,586,189 | — | — | — | — |
| **1904–05.** | | | | | | | |
| National War Loan 2¾ p.c. Stock | 205,138 | 97 16 6 | 200,629 | — | — | — | — |
| Local Loans 3 p.c. Stock | 104,288 | 95 16 3 | 99,921 | — | — | — | — |
| Transvaal Government 3 p.c. Guaranteed Stock 1923–53. | 514,142 | 97 3 3 | 499,562 | — | — | — | — |
| British Treasury Bills (6 months) | 1,200,000 | 98 16 8 | 1,185,984 | — | — | — | — |
| | 2,023,568 | — | 1,986,096 | — | — | — | — |
| **1905–06.** | | | | | | | |
| 2½ p.c. Consolidated Stock | 1,597,452 | 89 15 0 | 1,433,677 | — | — | — | — |
| National War Loan 2¾ p.c. Stock | 724,332 | 98 17 11 | 716,327 | — | — | — | — |
| Local Loans 3 p.c. Stock | 65,489 | 99 0 3 | 64,843 | — | — | — | — |
| Transvaal Government 3 p.c. Guaranteed Stock 1923–53. | 770,588 | 100 7 8 | 773,554 | — | — | — | — |
| 2¾ p.c. Guaranteed Stock | 538,720 | 92 16 3 | 500,000 | — | — | — | — |
| British Treasury Bills (6 months) | 3,000,000 | 98 14 10 | 2,962,201 | — | — | — | 2,700,000 |
| | 6,696,581 | — | 6,450,602 | — | — | — | 2,700,000 |
| **1906–07.** | | | | | | | |
| 2½ p.c. Consolidated Stock | 261,922 | 88 10 9 | 231,906 | — | — | — | — |
| National War Loan 2¾ p.c. Stock | 124,755 | 97 9 0 | 121,575 | — | — | — | — |
| British Treasury Bills (6 months) | 3,000,000 | 98 5 2 | 2,947,720 | — | — | — | 3,000,000 |
| | 3,386,677 | — | 3,301,201 | — | — | — | 3,000,000 |

| Description of Security. | Securities purchased. | | | Securities sold and discharged at Maturity. | | | |
|---|---|---|---|---|---|---|---|
| | | | | Sold. | | | Discharged at Maturity at Par. |
| | Nominal Value. | Average Price. | Cost Price. | Nominal Amount. | Average Price. | Amount realised. | |
| | £ | £ s. d. | £ | £ | £ s. d. | £ | £ |
| | | | **1907-08.** | | | | |
| 2½ p.c. Consolidated Stock | 492,248 | 85 6 5 | 420,000 | 1,000,000 | 87 16 3 | 878,125 | — |
| National War Loan 2¾ p.c. Stock | 87,054 | 97 10 10 | 84,914 | — | | — | — |
| 3 p.c. Exchequer Bonds (1909) | 1,000,000 | 99 12 6 | 996,250 | — | — | — | — |
| British Treasury Bills:— | | | | | | | |
| Six months | 3,000,000 | 98 6 10 | 2,950,239 | — | — | — | 3,000,000 |
| 119 days | 75,000 | 98 5 4 | 74,450 | — | — | — | — |
| | 4,654,302 | — | 4,525,853 | 1,000,000 | — | 878,125 | 3,000,000 |
| | | | **1908-09.** | | | | |
| 2½ p.c. Consolidated Stock | 39,873 | 83 11 3 | 33,319 | 3,269,483 | 86 6 6 | 2,822,363 | — |
| National War Loan 2¾ p.c. Stock | 486,568 | 100 2 6 | 487,176 | 1,464,175 | 99 17 3 | 1,462,189 | — |
| Canada Treasury Bills:— | | | | | | | |
| 341 days | 750,000 | 97 8 7 | 730,731 | — | — | — | — |
| 334 days | 250,000 | 97 9 8 | 243,709 | — | — | — | — |
| New South Wales Bills (6 months) | 500,000 | 98 15 2 | 493,801 | — | — | — | — |
| British Treasury Bills | — | — | — | 1,500,000 | 99 14 3 | 1,495,712 | 75,000 |
| 3 p.c. Exchequer Bonds (1909) | — | — | — | 1,000,000 | 100 1 10 | 1,000,937 | — |
| Local Loans 3 p.c. Stock | — | — | — | 300,000 | 98 19 7 | 296,937 | — |
| Transvaal Government 3 p.c. Guaranteed Stock 1923–53. | — | — | — | 402,302 | 98 14 7 | 397,187 | — |
| 2¾ p.c. Guaranteed Stock | — | — | — | 100,000 | 89 6 3 | 89,312 | — |
| | 2,026,441 | — | 1,988,736 | 8,035,960 | — | 7,564,637 | 75,000 |
| | | | **1909-10.** | | | | |
| 2½ p.c. Consolidated Stock | 500,000 | 85 8 9 | 427,188 | — | — | — | — |
| National War Loan 2¾ p.c. Stock | 115,000 | 100 16 11 | 115,971 | — | — | — | — |
| „ War Loan 2¾ p.c. Bonds | 266,000 | 100 11 1 | 267,738 | — | — | — | — |
| 3 p.c. Exchequer Bonds (1912) | 600,000 | 100 9 0 | 602,707 | — | — | — | — |
| British Treasury Bills:— | | | | | | | |
| Six months | 5,344,000 | 98 12 11 | 5,271,566 | — | — | — | 2,143,000 |
| Three months | 750,000 | 98 19 6 | 742,328 | — | — | — | — |
| 167 days | 400,000 | 99 6 4 | 397,255 | — | — | — | — |
| Canada Treasury Bills:— | | | | | | | |
| One year and 84 days | 500,000 | 96 12 4 | 483,086 | — | — | — | 1,000,000 |
| 155 days | 50,000 | 98 19 0 | 49,475 | — | — | — | — |
| Five months | 530,000 | 98 19 8 | 524,621 | — | — | — | — |
| Natal Treasury Bills (12 months) | 500,000 | 96 17 6 | 484,375 | — | — | — | — |
| New Zealand Bills (178 days) | 30,000 | 99 5 4 | 29,780 | — | — | — | 30,000 |
| 3 p.c. Exchequer Bonds (1915):— | | | | | | | |
| Deposit on allotment | — | 99 10 0 (*see* next year). | 30,460 | — | — | — | — |
| New South Wales Treasury Bills | — | — | — | — | — | — | 500,000 |
| | 9,585,000 | — | 9,426,550 | — | — | — | 3,673,000 |

| Description of Security. | Securities purchased. | | | Securities sold and discharged at Maturity. | | | |
|---|---|---|---|---|---|---|---|
| | | | | Sold. | | | |
| | Nominal Amount. | Average Price. | Cost Price. | Nominal Amount. | Average Price. | Amount realised. | Discharged at Maturity at Par. |
| | £ | £ s. d. | £ | £ | £ | £ | £ |
| | | | **1910-11.** | | | | |
| 3 p.c. Exchequer Bonds (1915). Balance of purchase money | 1,523,000 | 99 10 0 | 1,484,925 | — | — | — | — |
| 3 p.c. Exchequer Bonds (1915) | 2,227,600 | 99 13 3 | 2,220,117 | — | — | — | — |
| British Treasury Bills (6 months) | 8,400,000 | 98 14 1 | 8,291,214 | — | — | — | 8,251,000 |
| Canada 3½ p.c. Bonds (1912) | 378,000 | 101 10 6 | 383,758 | — | — | — | — |
| „ 3¾ p.c. Bonds (1914–19) | 111,000 | 102 17 5 | 114,186 | — | — | — | — |
| „ 4 p.c. Bonds (1912) | 81,000 | 102 13 0 | 83,146 | — | — | — | — |
| „ Treasury Bills | — | — | — | — | — | — | 1,080,000 |
| Cape of Good Hope 4 p.c. Bonds (1911) | 107,500 | 102 14 8 | 110,414 | — | — | — | — |
| New South Wales Bonds (1915) | 4,000 | 102 12 6 | 4,105 | — | — | — | — |
| „ 4 p.c. Stock (1918) | 113,000 | 99 10 1 | 112,442 | — | — | — | — |
| New Zealand 3½ p.c. Debentures (1915) | 45,000 | 100 7 7 | 45,170 | — | — | — | — |
| „ 3½ p.c. Debentures (1914) | 101,400 | 98 12 6 | 100,007 | — | — | — | — |
| „ 3¾ p.c. Debentures (1912) | 45,000 | 100 12 6 | 45,282 | — | — | — | — |
| Queensland 4 p.c. Bonds (1915) | 17,000 | 101 5 2 | 17,214 | — | — | — | — |
| „ 4 p.c. Stock (1915) | 10,000 | 101 7 7 | 10,138 | — | — | — | — |
| Corporation of London 3¼ p.c. Debs. (1913) | 50,000 | 100 0 1 | 50,002 | — | — | — | — |
| „ „ 3¼ p.c. Debs. (1914) | 50,000 | 100 0 0 | 50,001 | — | — | — | — |
| „ „ 3½ p.c. Debs. (1915) | 45,000 | 101 0 0 | 45,451 | — | — | — | — |
| Natal Treasury Bills | — | — | — | — | — | — | 500,000 |
| National War Loan Stock and Bonds | — | — | — | — | — | — | 867,568 |
| | 13,308,500 | — | 13,167,572 | — | — | — | 10,698,568 |
| | | | **1911-12.** | | | | |
| 3 p.c. Exchequer Bonds (1912) | 250,000 | 100 0 8 | 250,079 | — | — | — | — |
| „ „ (1915) | 135,000 | 100 11 11 | 135,803 | — | — | — | — |
| British Treasury Bills (6 months) | 9,000,000 | 98 10 4 | 8,866,412 | — | — | — | 9,000,000 |
| Canada 3¾ p.c. Bonds (1914–19) | 50,000 | 100 10 0 | 50,251 | — | — | — | — |
| Union of S. Africa Bills (9 months) | 500,000 | 97 11 0 | 487,757 | — | — | — | — |
| Southern Nigeria 4 p.c. Bonds (1916) | 100,000 | 98 17 7 | 98,881 | — | — | — | — |
| Cape of Good Hope Bonds | — | — | — | — | — | — | 107,500 |
| | 10,035,000 | — | 9,889,183 | — | — | — | 9,107,500 |

109128

| Description of Security. | Securities Purchased. | | | Securities sold and discharged at Maturity. | | | |
|---|---|---|---|---|---|---|---|
| | | | | Sold. | | | Discharged at Maturity at Par. |
| | Nominal Amount. | Average Price. | Cost Price. | Nominal amount. | Average Price. | Amount realised. | |
| | £ | £ s. d. | £ | £ | £ | £ | £ |
| | **1912-13.** | | | | | | |
| 2½ p.c. Exchequer Bonds (1913–15) | 50,000 | 100 1 3 | 50,032 | — | — | — | — |
| 3 p.c. Exchequer Bonds (1916) | 4,000,000 | 100 0 0 | 4,000,000 | — | — | — | — |
| 3 p.c. Exchequer Bonds (1915) | — | — | — | 1,000,000 | 100 | 1,000,000 | — |
| British Treasury Bills:— | — | — | — | — | — | — | 6,900,000 |
| Six months | 3,800,000 | 98 4 4 | 3,732,223 | — | — | — | — |
| 165 days | 1,000,000 | 98 13 5 | 986,726 | — | — | — | — |
| Queensland 4 p.c. Bonds (1915) | 78,000 | 102 7 6 | 79,854 | — | — | — | — |
| „ „ Stock (1915) | 45,000 | 102 7 7 | 46,070 | — | — | — | — |
| New Zealand 3½ p.c. Debs. (1914) | 100,000 | 98 4 1 | 98,205 | — | — | — | — |
| Union of S. Africa Bills (12 months) | 600,000 | 96 5 0 | 577,500 | — | — | — | 500,000 |
| New South Wales Bills:— | | | | | | | |
| 358 days | 100,000 | 96 12 0 | 96,599 | — | — | — | — |
| 357 days | 150,000 | 96 12 2 | 144,913 | — | — | — | — |
| Canada 3½ p.c. Bonds | — | — | — | — | — | — | 378,000 |
| „ 4 p.c. Bonds | — | — | — | — | — | — | 81,000 |
| New Zealand 3½ p.c. Debs. | — | — | — | — | — | — | 45,000 |
| 3 p.c. Exchequer Bonds (1912) | — | — | — | — | — | — | 850 000 |
| | 9,923,000 | — | 9,812,122 | 1,000,000 | — | 1,000,000 | 8,754,000 |

## Statement D.

Exchange Rates, Sales by the Government of India of Bills on London, Diminution of British Gold Coin held in Government Treasuries and Reserves in India, and Exports of British Gold Coin from India on Private Account: September 1907 to December 1908.

| Month. | Highest and Lowest rate of Exchange on India quoted in London (from "Times"). | | | | Bills on London offered and sold by Government of India at each date during the Month. | | | Diminution of Government Stock of British Gold Coin in India during Month. | Exports of Sovereigns and other British Gold coins from India on private account during Month. | Remarks. |
|---|---|---|---|---|---|---|---|---|---|---|
| | Calcutta. | | Bombay. | | Date. | Offered. | Sold. | | | |
| | Highest. | Lowest. | Highest. | Lowest. | | | | | | |
| **1907.** | *s. d.* | *s. d.* | *s. d.* | *s. d.* | | £ | £ | £ | £ | |
| September | 1 4 1/32 | 1 3 31/32 | 1 4 1/32 | 1 3 31/32 | — | — | — | 152,000 | 14 | |
| October | 1 4 1/32 | 1 3 31/32 | 1 4 1/32 | 1 3 31/32 | — | — | — | 254,000 | 9,109 | |
| November | 1 4 | 1 3 31/32 | 1 3 31/32 | 1 3 31/32 | — | — | — | 532,000 | 3 | |
| December | 1 3 15/16 | 1 3 27/32 | 1 3 15/16 | 1 3 27/32 | — | — | — | 338,000 | 2,501 | |
| **1908.** | | | | | | | | | | |
| January | 1 3 15/16 | 1 3 29/32 | 1 3 15/16 | 1 3 29/32 | — | — | — | 247,000 | 7 | |
| February | 1 3 31/32 | 1 3 29/32 | 1 3 31/32 | 1 3 29/32 | — | — | — | *58,000** | 3 | **Increase.* |
| March | 1 3 29/32 | 1 3 29/32 | 1 3 29/32 | 1 3 27/32 | 26th March | 500,000 | 70,000 | 226,000 | 6 | |
| April | 1 3 29/32 | 1 3 27/32 | 1 3 29/32 | 1 3 27/32 | 2nd April | 500,000 | 449,000 | 461,000 | 10,088 | |
| | | | | | 9th April | 500,000 | 340,000 | | | |
| | | | | | 16th April | 500,000 | 441,000 | | | |
| | | | | | 23rd April | 500,000 | 329,000 | | | |
| | | | | | 30th April | 500,000 | 205,000 | | | |
| May | 1 3 29/32 | 1 3 27/32 | 1 3 15/16 | 1 3 27/32 | 7th May | 500,000 | 81,000 | 654,000 | 2,002 | |
| | | | | | 14th May | 500,000 | 145,000 | | | |
| | | | | | 21st May | 820,000 | 793,000 | | | |
| | | | | | 28th May | 500,000 | 500,000† | | | † Tenders received for 741,000*l.* |
| June | 1 3 29/32 | 1 3 27/32 | 1 3 31/32 | 1 3 27/32 | 4th June | 1,000,000 | 755,000 | 334,000 | 2,995 | |
| | | | | | 11th June | 1,000,000 | 70,000 | | | |
| | | | | | 18th June | 500,000 | Nil | | | |
| | | | | | 25th June | 500,000 | 50,000 | | | |
| July | 1 3 29/32 | 1 3 27/32 | 1 3 31/32 | 1 3 27/32 | 2nd July | 500,000 | 470,000 | 16,000 | 115,005 | ‡ Tenders received for 550,000*l.* |
| | | | | | 9th July | 500,000 | 304,000 | | | |
| | | | | | 16th July | 500,000 | 500,000‡ | | | |
| | | | | | 23rd July | 1,000,000 | 968,000 | | | |
| | | | | | 30th July | 1,000,000 | 860,000 | | | |
| August | 1 3 29/32 | 1 3 27/32 | 1 3 29/32 | 1 3 27/32 | 6th August | 1,000,000 | 418,000 | 354,000 | 81,308 | |
| | | | | | 13th August | 500,000 | 310,000 | | | |
| | | | | | 20th August | 500,000 | Nil | | | |
| | | | | | 27th August | 500,000 | Nil | | | |
| September | 1 3 31/32 | 1 3 29/32 | 1 3 31/32 | 1 3 29/32 | 3rd September | 500,000 | Nil | 502,000 | 137 | Offer to sell bills on London discontinued 11th September 1908, F. 5644. 215,000*l.*, light British Gold Coin and 25,000*l.* gold bullion sent by Government of India to Secretary of State. |
| | | | | | 10th September | 500,000 | Nil | | | |
| October | 1 3 15/16 | 1 3 27/32 | 1 3 15/16 | 1 3 29/32 | — | — | — | 325,000 | 1,243 | |
| November | 1 3 29/32 | 1 3 27/32 | 1 3 27/32 | 1 3 27/32 | — | — | — | 62,000 | 25,500 | |
| December | 1 3 15/16 | 1 3 29/32 | 1 3 31/32 | 1 3 27/32 | — | — | — | *5,000*‖ | 21 | ‖ *Increase.* |
| | | | | | | 15,320,000 | 8,058,000 | 4,394,000* | 249,942 | * Including the 215,000*l.* light coin mentioned above. |

## Statement E.

CASH TRANSACTIONS OF THE INDIA OFFICE FROM SEPTEMBER 1907 TO DECEMBER 1908.

| Month. | OPENING BALANCE. | | | RECEIPTS. | | | | | | | | | | | DISBURSEMENTS. | | | | | | | | | | | CLOSING BALANCE. | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Gold Standard Reserve. | | | Treasury. | | | | | | | | Gold Standard Reserve. | | | | Treasury. | | | | | | | | | | |
| | | | | | | | | | Debt incurred. | | | | | | | | | | | | | | | | | | | | |
| | Treasury. | Gold Standard Reserve. | Total. | Securities Sold or Maturing. | Bills and Transfers appropriated and Dividends. | Total. | Bills and Transfers and Gold from India. | Withdrawal from Paper Currency Reserve. | General Purposes. | Railways. | Total. | Loan from Gold Standard Reserve. | Other Receipts. | Total. | Investments. | Bills on London. | Loan to Treasury. | Total. | Discharge of Debt including Railway Debentures. | Capital Expenditure on Railways and Irrigation Works. (including withdrawals by Railway Companies.) | Total Capital Payments. | Payments for Silver. | Other Payments. | Total. | Treasury. | Gold Standard Reserve. | Total. |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| **1907.** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| September | 5,146,111 | 38,406 | 5,184,517 | 800,000 | 209,054 | 1,009,054 | 662,866 | — | — | 295,000 | 295,000 | — | 178,145 | 1,136,011 | 1,049,063 | — | — | 1,049,063 | — | 480,946 | 480,946 | 1,036,913 | 534,793 | 2,052,652 | 4,229,470 | −1,603 | 4,227,867 |
| October | 4,229,470 | −1,603 | 4,227,867 | — | 72,288 | 72,288 | 921,678 | — | — | 1,858,550 | 1,858,550 | — | 206,701 | 2,986,929 | — | — | — | — | — | 724,341 | 724,341 | 483,546 | 2,627,047 | 3,834,934 | 3,381,465 | 70,685 | 3,452,150 |
| November | 3,381,465 | 70,685 | 3,452,150 | — | 29,065 | 29,065 | 420,694 | 825,000 | — | — | — | — | 268,949 | 1,514,643 | 99,750 | — | — | 99,750 | 30,000 | 784,204 | 814,204 | 12,607 | 903,352 | 1,730,163 | 3,165,945 | — | 3,165,945 |
| December | 3,165,945 | — | 3,165,945 | 700,000 | 13,810 | 713,810 | 571,905 | 1,500,000 | — | — | — | — | 106,325 | 2,178,230 | 700,000 | — | — | 700,000 | — | 772,302 | 772,302 | −9,143 | 529,198 | 1,292,357 | 4,051,818 | 13,810 | 4,065,628 |
| **1908.** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| January | 4,051,818 | 13,810 | 4,065,628 | — | 85,940 | 85,940 | 2,280,997 | — | — | 1,455,000 | 1,453,000 | — | 83,634 | 3,819,631 | 99,750 | — | — | 99,750 | 134,700 | 584,769 | 719,469 | −322 | 3,667,364 | 4,386,511 | 3,484,938 | — | 3,484,938 |
| February | 3,484,938 | — | 3,484,938 | — | — | — | 1,054,950 | — | — | 1,963,500 | 1,963,500 | — | 145,291 | 3,163,741 | — | — | — | — | — | 719,645 | 719,645 | −100 | 1,131,828 | 1,851,373 | 4,797,306 | — | 4,797,306 |
| March | 4,797,306 | — | 4,797,306 | 1,078,125 | 328,098 | 2,006,223 | −145,332 | — | — | 1,357,947 | 1,357,947 | — | 242,951 | 1,455,566 | 875,000 | — | — | 875,000 | — | 996,842 | 996,842 | — | 648,799 | 1,645,641 | 4,607,231 | 1,131,223 | 5,738,454 |
| April | 4,607,231 | 1,131,223 | 5,738,454 | 50,436 | 74,994 | 125,430 | 66,634 | — | — | 860,172 | 860,172 | — | 74,055 | 1,000,871 | — | 859,000 | — | 859,000 | 67,000 | 636,122 | 703,122 | — | 2,712,972 | 3,416,094 | 2,192,008 | 397,653 | 2,589,661 |
| May | 2,192,008 | 397,653 | 2,589,661 | 1,010,078 | 21,772 | 1,031,850 | 62,765 | 1,000,000 | — | 1,461,881 | 1,461,881 | — | 269,485 | 2,794,131 | — | 1,151,000 | — | 1,151,000 | — | 1,087,779 | 1,087,779 | — | 730,366 | 1,818,145 | 3,167,994 | 278,503 | 3,446,497 |
| June | 3,167,994 | 278,503 | 3,446,497 | 1,568,156 | −66 | 1,568,090 | 169,810 | — | 2,000,000 | 1,152,385 | 3,152,385 | — | 115,061 | 3,437,256 | — | 2,168,000 | — | 2,168,000 | — | 665,075 | 665,075 | — | 991,027 | 1,656,102 | 4,949,148 | −321,407 | 4,627,741 |
| July | 4,949,148 | −321,407 | 4,627,741 | 1,487,984 | 65,757 | 1,553,741 | 186,846 | — | — | 1,578,909 | 1,578,909 | — | 129,158 | 1,894,913 | — | 824,000 | — | 824,000 | 198,700 | 804,044 | 1,002,744 | — | 3,461,090 | 4,463,834 | 2,380,227 | 408,334 | 2,788,561 |
| August | 2,380,227 | 408,334 | 2,788,561 | 2,251,585 | 296 | 2,251,881 | 202,217 | 1,000,000 | — | 279,979 | 279,979 | — | 537,151 | 2,079,347 | — | 3,036,000 | — | 3,036,000 | 100 | 729,509 | 729,609 | — | 1,515,936 | 2,245,545 | 2,214,029 | −376,785 | 1,838,244 |
| September | 2,214,029 | −375,785 | 1,838,244 | 472,562 | — | 472,562 | 1,431,013<br>238,881 Gold. | — | — | 349,344 | 349,344 | — | 54,646 | 2,073,884 | — | 20,000 | — | 20,000 | — | 594,198 | 594,198 | — | 530,522 | 1,124,720 | 3,163,193 | 76,777 | 3,239,970 |
| October | 3,163,193 | 76,777 | 3,239,970 | — | 35,932 | 35,932 | 1,238,798<br>1,069 Gold. | — | — | 507,389 | 507,389 | — | 210,031 | 1,977,287 | — | — | — | — | — | 945,615 | 945,615 | — | 2,877,705 | 3,823,320 | 1,317,160 | 112,709 | 1,429,869 |
| November | 1,317,160 | 112,709 | 1,429,869 | 803,125 | 17,915 | 821,040 | 417,904 | 205,000 | — | 296,177 | 296,177 | 933,749 | 102,976 | 1,955,806 | — | — | 933,749 | 933,749 | 300,000 | 565,105 | 865,105 | — | 1,171,553 | 2,036,658 | 1,236,308 | — | 1,236,308 |
| December | 1,236,308 | — | 1,236,308 | — | — | — | 2,374,443 | — | 2,500,000 | 179,364 | 2,679,364 | — | 63,825 | 5,117,632 | — | — | — | — | — | 575,198 | 575,198 | — | 556,438 | 1,131,636 | 5,222,304 | — | 5,222,304 |
| | | | | 10,822,051 | 954,855 | 11,776,906 | 11,998,188<br>239,950 Gold. | 4,530,000 | 4,500,000 | 13,595,597 | 18,095,597 | 933,749 | 2,788,394 | 38,585,878 | 2,823,563 | 8,038,000 | 933,749 | 11,815,312 | 730,500 | 11,665,694 | 12,396,194 | 1,523,501 | 24,589,990 | 38,509,685 | | | |

# APPENDIX IV.

## SUPPLEMENTARY STATEMENTS TO ACCOMPANY MEMORANDUM ON GOLD STANDARD RESERVE, SUBMITTED BY MR. L. ABRAHAMS, C.B., ASSISTANT UNDER SECRETARY OF STATE FOR INDIA.

In connection with the question of the amount up to which the London branch of the Gold Standard Reserve should be allowed to accumulate, I submit three additional statements.

Statement 1.—The summary on page 92 of my Memorandum on the Gold Standard Reserve gave information about the cash transactions of the India Office from 1st September 1907 to 31st December 1908, that period being chosen because it included all the special measures taken in 1907 and 1908 for supporting exchange, or arising out of the necessity for so doing, the last of such measures having been the issue of 2,500,000*l.* India Bills in December 1908. Statement I below gives corresponding information for the period from 1st September 1907 to 31st August 1908, the latter month being the one in which the exchange crisis may be considered from some points of view to have ended since no application was received after 13th August for the bills on London offered by the Government of India, and substantial sales of Council Bills were made by the Secretary of State in September 1908. As there is room for difference of opinion as to the period over which the difficulties of 1907 and 1908 should be regarded as having extended, and consequently as to the extent of the exceptional demands that had to be met, the Royal Commission may be glad of the alternative calculation now submitted.

Statement 2 gives the balance of trade on private account for each financial year from 1871–72 to 1912–13, and shows that the two years 1907–08 and 1908–09, in which the exchange crisis of 1907 and 1908 occurred were within a very small amount of being the worst two successive years in the period of 42 years.

Statement 3 gives for the period from November to October in each year from 1892–93 to 1911–12 information similar to that contained in the enclosure to Lord Morley's Despatch, No. 82, dated 2nd July 1909. (*See* page 175 of the Correspondence accompanying my Memorandum on the Gold Standard Reserve). It shows in a much more striking manner than do the figures for financial years the very exceptional nature of the conditions that prevailed in 1907 and 1908.

## STATEMENT 1.

### INDIA OFFICE CASH TRANSACTIONS, 1st September 1907 to 31st August 1908 (Summary of figures for those months given in Statement E., page 104).

#### GOLD STANDARD RESERVE.

| | £ | £ | | £ |
|---|---|---|---|---|
| Opening Cash balance (apart from securities) - - - | | 38,406 | Invested - - - | 2,823,563 |
| Cash Receipts): | £ | | Payments to meet bills drawn by the Government of India on Secretary of of State and sold to bankers, merchants, &c., in India, 8,038,000*l.* less 375,785*l.* met temporarily from Treasury Balances - - | 7,662,215 |
| Dividends and remittances from India - | 901,008 | | | |
| Securities sold or repaid on maturity - - | 9,546,364 | | | |
| | | 10,447,372 | Closing Cash balance. [The market value of the sterling securities at this date was 6,415,931*l.*] - - | |
| Total - - | | 10,485,778 | Total - - | 10,485,778 |

#### OTHER TRANSACTIONS.

| | £ | £ | | £ |
|---|---|---|---|---|
| Opening balance - - | | 5,146,111 | Railways: Payments on Capital Account, including discharge of railway loans - - - | 9,416,078 |
| Railways: Proceeds of railway loans | | 12,263,323 | Purchase of silver - - | 1,523,501 |
| General purposes: | | | General Purposes: Payments including 375,785*l.* temporarily used to meet Bills on London (shown under Gold Standard Reserve) - - | 19,453,772 |
| Receipts from sale of Council Bills and Transfers and Miscellaneous - - - | £ 8,872,946 | | Closing balance - - - | 2,214,029 |
| Gold withdrawn from Paper Currency Reserve - - | 4,325,000 | | | |
| Proceeds of India Bills issued for general purposes - - | 2,000,000 | | | |
| | | 15,197,946 | | |
| Total - - | | 32,607,380 | Total - - | 32,607,380 |

The exceptional demands on India Office resources, arising from the unfavourable position of exchange in 1907 and 1908, are shown in the Summary above to have been, during the period from 1st September 1907 to 31st August 1908, as follows:—

| | £ |
|---|---|
| Shown under "Gold Standard Reserve": Payments to meet bills, &c. - - - - | 7,662,215 |
| Shown under "Other Transactions": Excess of Payments for General Purposes (19,453,772*l.*) over Receipts from Sale of Council Bills and Miscellaneous (8,872,946*l.*) - - - | 10,580,826 |
| Total - - | 18,243,041 |

## STATEMENT 2.

Net Exports of Merchandise and Treasure from India on Private Account from 1st April to 31st March in each year from 1871–72 to 1912–13 (from yearly Trade Tables).

| Year. | — | Rate of Exchange. | — |
|---|---|---|---|
| | Rs. | *s.* *d.* | £ |
| 1871–72 | 22,22,24,320 | 1 11·126 | 21,413,165 |
| 1872–73 | 21,47,17,950 | 1 10·754 | 20,357,051 |
| 1873–74 | 19,40,26,180 | 1 10·351 | 18,069,496* |
| 1874–75 | 15,11,86,850 | 1 10·156 | 13,957,066* |
| 1875–76 | 17,75,98,790 | 1 9·626 | 16,003,127* |
| 1876–77 | 18,10,97,470 | 1 8·508 | 15,474,779* |
| 1877–78 | 10,65,93,860 | 1 8·791 | 9,234,137* |
| 1878–79 | 21,16,62,120 | 1 7·794 | 17,456,833 |
| 1879–80 | 17,70,44,250 | 1 7·961 | 14,724,959 |
| 1880–81 | 16,64,36,380 | 1 7·956 | 13,839,185 |
| 1881–82 | 24,68,44,820 | 1 7·895 | 20,462,407 |
| 1882–83 | 20,92,55,260 | 1 7·525 | 17,023,787 |
| 1883–84 | 23,52,10,140 | 1 7·536 | 18,771,105 |
| 1884–85 | 18,05,96,990 | 1 7·308 | 14,528,028 |
| 1885–86 | 17,62,63,410 | 1 6·247 | 13,401,160 |
| 1886–87 | 20,39,83,900 | 1 5·441 | 14,823,680 |
| 1887–88 | 15,77,47,470 | 1 4·898 | 11,106,736 |
| 1888–89 | 18,26,63,900 | 1 4·379 | 12,466,046 |
| 1889–90 | 21,21,93,600 | 1 4·566 | 14,646,663 |
| 1890–91 | 11,25,32,420 | 1 6·099 | 8,486,351 |
| 1891–92 | 29,86,90,770 | 1 4·733 | 20,824,969 |
| 1892–93 | 33,85,01,510 | 1 2·984 | 21,133,778 |
| 1893–94 | 18,09,01,140 | 1 2·546 | 10,964,056 |
| 1894–95 | 37,24,65,710 | 1 1·100 | 20,330,420 |
| 1895–96 | 35,82,00,590 | 1 1·638 | 20,354,749 |
| 1896–97 | 23,85,01,410 | 1 2·450 | 14,359,772* |
| 1897–98 | 14,92,84,930 | 1 3·406 | 9,582,848* |
| 1898–99 | 33,86,53,560 | 1 3·978 | 22,545,861 |
| 1899–1900 | 25,25,58,510 | | 16,837,234* |
| 1900–01 | 22,10,19,915 | | 14,734,661* |
| 1901–02 | 31,76,00,865 | | 21,173,391* |
| 1902–03 | 33,58,17,390 | | 22,387,826 |
| 1903–04 | 44,34,24,000 | | 29,561,600 |
| 1904–05 | 35,89,70,925 | | 23,931,395 |
| 1905–06 | 44,16,24,315 | 1 4 | 29,441,621 |
| 1906–07 | 46,77,04,935 | | 31,180,329 |
| 1907–08 | 19,97,62,680 | | 13,317,512* |
| 1908–09 | 15,05,37,735 | | 10,035,849* |
| 1909–10 | 39,63,55,620 | | 26,423,708 |
| 1910–11 | 47,97,89,085 | | 31,985,939 |
| 1911–12 | 46,20,88,130 | | 30,805,875 |
| 1912–13 | 41,37,91,724 | | 27,586,115 |

* In the years marked with an asterisk (1873–74, 1874–75, 1875–76, 1876–77, 1877–78, 1896–97, 1897–98, 1899–1900, 1900–01, 1901–02, 1907–08, and 1908–09) the expenditure on Famine Relief exceeded 500,000*l.*

## STATEMENT 3.

FOREIGN TRADE of India on Private Account for the period from 1st November to 31st October in each year from 1892–93 to 1911–12. (Rupees converted into sterling at the rate of Rs. 15 = 1*l*.).

| Year. | Merchandise. | | | Gold. | Silver. | Merchandise, Gold, and Silver. |
|---|---|---|---|---|---|---|
| | Exports. | Imports. | Net Exports. | Net Imports. | Net Imports. | Net Exports. |
| | 1. | 2. | 3. | 4. | 5. | 6=3+4+5. |
| | £ | £ | £ | £ | £ | £ |
| 1892–93 - | 71,580,000 | 45,010,000 | 26,570,000 | 290,000 | 9,750,000 | 16,530,000 |
| 1893–94 - | 73,610,000 | 49,440,000 | 24,170,000 | — *2,260,000* | 5,890,000 | 20,540,000 |
| 1894–95 - | 72,130,000 | 45,940,000 | 26,190,000 | — *480,000* | 3,980,000 | 22,690,000 |
| 1895–96 - | 74,100,000 | 49,390,000 | 24,710,000 | 2,030,000 | 4,110,000 | 18,570,000 |
| 1896–97 - | 64,580,000 | 43,790,000 | 20,790,000 | 2,640,000 | 5,190,000 | 12,960,000* |
| 1897–98 - | 73,930,000 | 45,740,000 | 28,190,000 | 3,180,000 | 4,570,000 | 20,440,000* |
| 1898–99 - | 73,670,000 | 48,400,000 | 25,270,000 | 4,610,000 | 2,660,000 | 18,000,000 |
| 1899–1900 | 69,560,000 | 46,920,000 | 22,640,000 | 6,130,000 | 940,000 | 15,570,000* |
| 1900–01 - | 78,940,000 | 55,130,000 | 23,810,000 | 3,810,000 | 2,450,000 | 17,550,000* |
| 1901–02 - | 83,700,000 | 52,730,000 | 30,970,000 | 3,420,000 | 5,250,000 | 22,300,000* |
| 1902–03 - | 94,510,000 | 54,050,000 | 40,460,000 | 9,560,000 | 3,750,000 | 27,150,000 |
| 1903–04 - | 101,010,000 | 61,360,000 | 42,650,000 | 12,920,000 | 5,140,000 | 24,590,000 |
| 1904–05 - | 106,470,000 | 66,070,000 | 40,400,000 | 9,900,000 | 3,970,000 | 26,530,000 |
| 1905–06 - | 111,230,000 | 72,190,000 | 39,040,000 | 7,500,000 | 3,710,000 | 27,830,000 |
| 1906–07 - | 129,270,000 | 79,050,000 | 50,220,000 | 13,150,000 | 6,060,000 | 31,010,000 |
| 1907–08 - | 99,530,000 | 87,420,000 | 12,110,000 | 4,740,000 | 8,560,000 | — *1,190,000** |
| 1908–09 - | 111,240,000 | 75,840,000 | 35,400,000 | 3,930,000 | 6,260,000 | 25,210,000* |
| 1909–10 - | 138,340,000 | 82,330,000 | 56,010,000 | 16,210,000 | 5,700,000 | 34,100,000 |
| 1910–11 - | 150,560,000 | 89,850,000 | 60,710,000 | 20,470,000 | 4,740,000 | 35,500,000 |
| 1911–12 - | 160,810,000 | 100,340,000 | 60,470,000 | 29,910,000 | 3,550,000 | 27,010,000 |

* *See* Footnote to Statement 2.

# APPENDIX V.

## CORRESPONDENCE TO ACCOMPANY MEMORANDUM AND STATEMENTS ON GOLD STANDARD RESERVE, HANDED IN BY MR. L. ABRAHAMS, C.B., ASSISTANT UNDER SECRETARY OF STATE FOR INDIA.

### Letter from the GOVERNMENT of INDIA to the SECRETARY of STATE, No. 302, dated 6th September 1900.

MY LORD,

IN our Despatch No. 301 of 24th August 1899, we wrote, with reference to paragraph 60 of the Report of the Indian Currency Committee, 1898: "The proposal made by the Committee that any profit made "on rupee coinage should be held in gold as a special reserve has not "escaped our attention; but the need for the coinage of additional rupees "is not likely to occur for some time, and a decision on this point may "conveniently be deferred."

In our Despatch No. 421 of 14th December 1899, in view of the large influx of gold which had then begun, we discussed the question of the amount or proportion of gold which we can conveniently hold in the Paper Currency Reserve, bearing in mind that presenters of notes may, for some time to come, prefer rupees to sovereigns, and that it is expedient to meet their wishes as far as possible. We then estimated that it was desirable to hold in rupees 9½ crores, with which amount we believed that there would be practically no fear of our having to exercise our option of paying currency notes in sovereigns against the wishes of the presenter. The note circulation being then about 27 crores, the deduction of the investment of 10 crores and the silver holding of 9½ crores left about 7½ crores or 5,000,000*l.* to be held in gold. And the immediate measure proposed was that when the stock of gold reached 5,000,000*l.* the Currency Offices should be instructed to offer sovereigns to presenters of notes, but to give rupees to anyone who might object to receive sovereigns and who might ask for rupees. We said that it was not possible at that time to propose a more definite policy than that of paying out some gold when the limit suggested had been passed; that we would watch with close attention what befell the gold paid out and the attitude of the public; that we hoped, proceeding in this tentative fashion, to be able in the course of the summer of 1900 to give a more confident answer to the important question discussed, "and perhaps also to form "an opinion as to when it may be desirable for the Government to make "some addition to the rupee coinage."

2. As will be seen from the table in paragraph 3 of our Honourable Colleague Sir E. Law's Minute of 28th June, appended to this Despatch, the receipts of gold continued and increased after December last. For more than eight months the gold in the Currency Reserve has exceeded, and the silver has been less than, the limits suggested in the Despatch of that month. By the middle of January the stock of gold in the Currency Reserve in India reached 5,000,000*l.* The proposal made in that Despatch was at once brought into operation; later on we sent supplies of sovereigns to the larger District Treasuries, with instructions that they should be issued to anyone who desired to receive them in payments due or in exchange for rupees; and in March we directed the Post Office to make in sovereigns all payments of Money Orders in the Presidency Towns and Rangoon, and we requested the Presidency Banks to make in the Presidency Towns and Rangoon payments on Government account as far as possible in sovereigns. These measures were taken, not so much in the expectation that they would in the early future relieve us of any large part of our surplus gold, but in the

hope that they would accustom the people to gold, would hasten the time when it will pass into general circulation in considerable quantities, and by so doing would mitigate in future years the difficulties that we were experiencing from the magnitude of our stock of gold and the depletion of our stock of rupees.

3. In order to meet those difficulties and to secure, if possible, that we should have enough rupees for payment to presenters of currency notes and tenderers of gold, we began to coin additional rupees. In January and February we purchased in India sufficient silver to coin about a crore of rupees; and, at the same time, we re-coined into rupees between 30 and 40 lakhs of old rupees which had been withdrawn from circulation. Subsequently we requested your Lordship to make the following purchases of silver for coinage:—

In March 500,000*l.* worth;
In April 500,000*l.* worth;
In May 500,000*l.* worth; and
In June 400,000*l.* worth.

These requests were complied with and the coinage is still proceeding. In May we also obtained from the Maharaja of Gwalior a loan in the shape of Gwalior coins, worth about 45 lakhs, which we have coined into about 69 lakhs of new rupees. The total new coinage that we have undertaken accordingly amounts to about 6½ crores.

4. In order further to relieve our difficulties we, in May, ceased receiving gold bullion below standard fineness, other than the produce of the Indian mines, and also directed that sixty days should be fixed as the period for the payment of certificates in respect of gold tendered under the Notification No. 2662 of 26th June 1893.

5. From the above short summary of events which have occurred in the present calendar year, it will be evident that the time has now come when it is desirable to arrive at an early decision on both the questions described in paragraph 1 of this Despatch. Our Honourable Colleague Sir E. Law has discussed the subject in all its bearings, and stated the measures which he recommends for adoption, in a comprehensive Minute, dated 28th June, which forms an enclosure to this Despatch. We also append a Minute, dated 8th July, by His Excellency the Viceroy, making observations and inquiries regarding Sir E. Law's proposals, and two Minutes by Sir E. Law, dated 21st July, and 23rd August, explaining and, in one or two points, modifying his proposals.

6. Our Honourable Colleague's proposals may be summarised as follows:—

(1) To adopt the recommendation in paragraph 60 of the Report of the Indian Currency Committee, that the profits on the coinage of rupees should not be credited to the Revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances.

(2) To add to the special reserve in gold, formed primarily by the profits on coinage, the annual interest on the investment of the Paper Currency Reserve.

(3) To use in future for the purchase of silver for coinage into rupees any excess over 7,000,000*l.* in the stock of gold in the Paper Currency Reserve.

(4) To transfer very gradually the existing investment of 10 crores from Government of India Rupee Securities to Government of India Sterling Securities.

(5) (*a*) To gradually increase the amount of the Paper Currency Investment, at present 10 crores, to a sum approximating to 50 per cent. of the circulation of Currency Notes, the increase being 5 crores if the circulation remains at its present level of about 30 crores.

(*b*) To make the additional investment in British Consols.

(*c*) To take the funds for the additional investment from the stock of 7,000,000*l.* of gold remaining in the Currency Reserve under proposal (3), thus reducing that stock to about £3⅔ millions, the investment to be made gradually.

7. We unanimously support (1), (2), and (3) of the above proposals and strongly recommend them to your Lordship for sanction. We submit the following explanations of the reasons in favour of these three proposals and of the manner in which they would be worked in practice.

8. With regard to proposal (1), the fact that it was unanimously recommended by the Indian Currency Committee invests it with great authority and enables us to refrain from entering into any lengthy justification. The only objection to it of any importance is that in a country like India, which borrows every year for the construction of railways and canals, it may be said to be generally inexpedient to withdraw any portion of the receipts from the general balances to be employed specially, since that course involves an increase of the annual loans by the amount so withdrawn, and consequently an increased interest charge. But there are objects of sufficient importance to justify such a proceeding, and we think the maintenance of a stock of gold, adequate to ensure the success of our currency policy, to be emphatically such an object. As will appear from our remarks regarding proposal (3), we have found by experience that we cannot maintain in the Paper Currency Reserve a stock of gold of the magnitude which may be required in possible circumstances. We therefore consider it desirable that a reserve of gold should be formed outside the Currency Reserve, which will supplement the stock in that Reserve for the present, and will in time take the place of that stock and relieve us of the necessity for keeping anything more than a small amount of gold in the Currency Reserve; this would be in accordance with the view* of Lord Elgin's Government that the Reserve should not be used for the general purposes of our exchange policy. We consider the formation of a Special Gold Reserve to be an object of sufficient importance to justify the ear-marking of the receipts from profit on coinage as proposed.

9. The steps required to carry out this measure will be the following:—

(*a*) To direct that the profits on coinage shall cease to be credited to a Revenue Head and shall be taken to a special Debt Head of receipt.

(*b*) To direct that the amount of the profits shall be paid in rupees into the Paper Currency Reserve, releasing therefrom an equivalent amount of gold.

(*c*) To direct that the gold so released shall be held as a "Special Gold Reserve" apart from the ordinary Treasury Balances.

(*d*) The current gold transactions, receipts and issues, will continue for the present to be passed through the Currency Reserve. When the amount of gold in that Reserve falls below the amount required for these current transactions, there will be paid from the "Special Gold Reserve" into the Currency Reserve the sum required to make up that amount, releasing rupees.

(*e*) The rupees so released will be held in the "Special Gold Reserve" to be available for return to the Currency Reserve in the event of the current of trade requirements turning, at not too great an interval of time, in the contrary direction and creating again a demand for rupees. If the demand continued for a long time to be for sovereigns, and if it exhausted our gold stock, we should contemplate meeting the demand in the first instance by selling the sterling investments of the Currency Department.

We do not consider it necessary at present to contemplate having recourse to the last resort of melting down rupees and selling the bullion for gold.

10. It remains to consider the extent to which we can give early effect to this proposal. In regard to future coinage we apprehend no difficulty. To

* Paragraph 7 of Despatch No. 131 of 2nd June 1896 (not printed).

replace, say, 500,000*l.*, only 75 lakhs of rupees are required; the silver purchased with that sum of gold will, however, be coined into over 100 lakhs, the difference being the profits on the coinage. The coinage will thus itself create the funds for the payments to the Currency Reserve under (*b*) of the preceding paragraph; and we shall be in the same position in respect of general resource operations as if no coinage had been found necessary.

11. In regard to the profits on the coinage which has been already undertaken, as detailed in paragraph 3 above, there is a difficulty. The enormous demands on our balances caused by the famine, in the way of direct expenditure on famine relief, indirect expenditure, agricultural advances, and loans to Native States, have compelled us to use the profits on the past coinage in aid of our general balances, in order to keep our borrowing this year within the amount which there was a hope of raising on reasonable terms. It will therefore be impossible for us to pay into the Currency Reserve immediately the number of rupees representing these past profits. For these we shall immediately take only step (*a*) of paragraph 9, and the amount of the profit on the coinage detailed in paragraph 3 both this year and last will remain as a book credit of the Debt Head until we are in a position to make the payments into the Currency Reserve. This we expect to be able to do gradually as the famine loans and advances to Native States are repaid to us. The necessity for using the profits on coinage in aid of our general balances this year may be held to have arisen because of our decision to make those loans; and it will be appropriate to consider them as in a general way hypothecated for the desired payments into the Currency Reserve.

12. Proposal (2) of paragraph 6 is an extension of the recommendation of the Indian Currency Committee, and the same general observations apply. We think it desirable that the formation of the "Special Gold Reserve" should be hastened by any convenient addition, and we consider the annual interest on the Currency Investment an appropriate item to devote to this purpose. The interest on the present investment is Rs. 34,70,000.

13. Proposal (3) of paragraph 6 is one that has been forced upon us by our embarrassing experience since the month of January. Soon after the large gold receipts had reduced the stock of rupees in the Currency Reserve below the limit of 9½ crores, mentioned in our Despatch of December 1899, the Comptroller-General in February last proposed that we should adopt such a rule as is now proposed and convert into rupees any gold in the Reserve in excess of a certain amount. He was led to make this suggestion by the very great practical difficulties that he was then encountering in administering the Treasuries and the Currency Department, and in meeting the demands made upon him for rupees in exchange for notes and for gold. We were not at that time convinced that so large a coinage as the proposal involved would be necessary. We hoped that the difficulties in meeting the demand for rupees would come to an end with the termination of the Burma rice season; before undertaking further coinage we desired to await the experience of the season of slack trade, and to see whether any large portion of the rupees which had been passed into general circulation in the preceding sixteen months would return to the trade centres after the cessation of our heavy famine expenditure. All that we thought it necessary then to do in the direction of further coinage was to ask your Lordship to purchase 500,000*l.* worth of silver, a step which we took on 5th March. The difficulties however, did not disappear, but increased in intensity. On 11th April the Calcutta Currency Office was obliged to refuse to give rupees in the encashment of a small amount of currency notes presented on that day, and for some weeks thereafter we were in daily fear that there might be a recurrence of that incident. To prevent such a risk, we made the successive additions to the coinage set forth in paragraph 3. Pending the experience which we awaited and the consideration of the general question which we have now given to it, we have been specially careful to limit these additions to the lowest amount which, on the best calculations possible, seemed likely to enable us to meet the demand for rupees during the present jute season, or up to October next. We are not without some anxiety lest events should prove that, in our desire to avoid unnecessary coinage, we have limited the amount too much; the

Comptroller-General has already sounded some notes of warning; but we trust that we shall not be forced to telegraph a request for further purchases of silver in anticipation of the arrival of this Despatch. Although we may, with difficulty, meet the demands up to October with the rupee balance so much lower than the limit of complete safety, the experience of the last six or eight months has convinced us that we shall not be justified in attempting to face the coming busy cold season and the demands of the Burma rice trade with the rupee balance in the Currency Reserve lower than results from a maximum balance of gold of 7,000,000*l.* That maximum will leave a rupee balance of about 9½ crores if the circulation remains at its present level of about 30 crores. We do not, of course, propose to be bound in any way to adhere to that maximum; we propose it for the present only; unforeseen circumstances, such as a variation in the note circulation or more rapid progress in the use of sovereigns as money, may at any time in the future render it expedient to suggest a change in the amount.

14. We may mention that we have closely watched the result of the measures described in paragraph 2. The issues of gold have been considerable; but much has come back to us through the Currency Department and the Presidency Banks. The Comptroller-General estimated the amount remaining in circulation at the end of June at over a million and a quarter out of nearly two millions issued up to that time; but there are many uncertain data in the calculation. We are not yet able to say that gold has passed into use as money to any appreciable extent.

15. It is very desirable that we should feel assured of being able to meet the public demand for rupees, as indicated by the presentation of currency notes and gold. We therefore strongly press on your Lordship the expediency of sanctioning the above proposal for further coinage. If this sanction is accorded, we request that the purchases may be begun as soon as convenient after the receipt of this Despatch, being made in such instalments as may be thought best. Before the purchases are completed, we shall be gaining the experience that we desire, but cannot safely await, of the period after the cessation of the famine. If rupees do come back to the trade centres after the famine, and are presented for gold or for notes, it may be unnecessary to proceed with further purchases beyond a first instalment. On the other hand, if our stock of gold continues to increase, the purchases will have to be increased beyond the amount which now appears necessary.

16. The stock of gold in the Currency Reserve on 15th August consisted of 500,000*l.* in London and nearly 8,500,000*l.* in India. The London gold was released on 29th August, as intimated by telegram. The purchases required to make our proposed reduction will, therefore, on the present figures, be about 1,500,000*l.*, and the additional coinage will be about 3½ crores of rupees. This with the coinage already undertaken will constitute a very large addition in the current year. But it is one which is made in response to a clear public demand, and, as Mr. Dawkins stated in paragraph 30 of the Budget Statement of last March, additions to the coinage will be as nearly automatic as is possible in the circumstances if we make them in close accordance with the demands of trade. Moreover, the possible evil effects of what may in the future turn out to be excessive additions to the coinage will, we think, be mitigated by the proposal we have made —*see* clause (*e*) of paragraph 9 above—for the retention in the "Special Gold Reserve" of rupees found to be in excess of public requirements, and presented to be exchanged for sovereigns.

17. But we do not wish our proposal to be considered as dependent on such arguments as those just stated. We make it primarily on the practical ground that we consider it necessary in order to enable us to fulfil an obligation which, though we are not, and do not propose to be, legally committed thereto, we think it desirable to undertake so long as we can do so without excessive inconvenience; namely, to pay rupees to all tenderers of gold and to give rupees in encashment of currency notes to all who prefer rupees to sovereigns.

18. Proposal (4) of paragraph 6 is for the conversion of the present Government Rupee Paper Investment of 10 crores into Sterling Securities of the Government of India. Our Honourable Colleague proposes to make this change very gradually, in order to avoid causing a material depreciation in the market value of rupee paper, and a consequent injurious effect on future rupee loans. Section 20 of the Paper Currency Act requires the Reserve to be invested "in Securities of the Government of India." If, as appears to be the case, this expression includes sterling as well as rupee securities of the Government of India, and the change can be made without fresh legislation, we recommend this proposal also for sanction.

19. With regard to proposal (5) of paragraph 6, the following doubts are entertained in some quarters:—

Firstly, doubt is felt as to the desirability of reducing, even gradually, by so large an amount as is proposed, the existing gold stock in the Paper Currency Reserve, until the stock in the new Special Gold Reserve has attained some magnitude.

Secondly, it is doubted whether an increase of the Paper Currency Investment by so large an amount as from 10 to 15 crores will be generally approved. If your Lordship directs us to proceed with the proposal, the first step would be to consult the Chambers of Commerce, setting before them the facts of the note circulation up to the present time, as was done in the enclosures of the Despatch No. 131 of 2nd June 1896, when the last increase of the investment, from 8 to 10 crores, was proposed.

Thirdly, to give effect to the proposal, legislation will be required both in respect of the increase of the investment and in respect of the power to make the investment in British Consols. And doubts are felt as to the expediency of introducing, at the present time, fresh legislation to ensure the stability of a currency policy which, though it has so far been attended with gratifying success, is still not entirely beyond the experimental stage; such legislation might possibly excite apprehensions both as to the confidence entertained by the Government of India in their own policy, and as to the success of the policy itself. These doubts are, however, not shared by our Honourable Colleague in the Finance Department.

20. Doubtless your Lordship will be able to estimate the value that is to be attached to these doubts and to advise us as to the steps that it may be desirable to take in pursuance of the object which we are all agreed in commending to your Lordship's favourable attention.

We have, &c.,
(Signed) CURZON OF KEDLESTON,
&c., &c.

## Enclosures of Letter from the Government of India to the Secretary of State, No. 302, of 6th September 1900.

### I.—FIRST MINUTE BY THE HONOURABLE SIR EDWARD LAW.

*Gold Exchange Fund.*

Circumstances seem to render advisable an early decision on the question of the proper manner of dealing with profits derived from the coinage of rupees.

This question is not only important in itself, but it also involves important subsidiary considerations.

2. I think it is necessary before recording an opinion on the question of the manner in which it is desirable to deal with the profits on coinage, to consider the actual situation as regards the Currency Reserve and the accumulation of gold which it now includes and which has become an unexpected embarrassment.

3. The following table shows the steady increase of gold in the Currency Reserve, and the corresponding decrease in silver :—

| | Silver Coin. | Gold. | Gold held in England under Act II. of 1898. |
|---|---|---|---|
| | Rs. | Rs. | Rs. |
| On 15th April 1899 | 14,62,20,568 | 3,24,97,251 | — |
| „ 15th May 1899 | 14,30,68,556 | 3,42,77,538 | — |
| „ 15th June 1899 | 14,71,00,255 | 3,44,44,964 | — |
| „ 15th July 1899 | 15,59,26,213 | 3,54,21,676 | — |
| „ 15th August 1899 | 15,55,93,533 | 3,83,50,786 | — |
| „ 15th September 1899 | 13,68,50,748 | 3,83,50,786 | — |
| „ 15th October 1899 | 12,35,18,157 | 4,17,17,612 | — |
| „ 15th November 1899 | 10,84,49,860 | 5,56,46,119 | 97,50,000 |
| „ 15th December 1899 | 9,03,66,872 | 6,33,25,197 | 1,12,50,000 |
| „ 15th January 1900 | 6,99,10,036 | 7,58,68,068 | 1,80,00,000 |
| „ 31st January 1900 | 6,77,84,653 | 8,14,70,551 | 2,25,00,000 |
| „ 15th February 1900 | 5,85,16,374 | 9,50,70,065 | 2,25,00,000 |
| „ 28th February 1900 | 4,93,20,678 | 10,08,99,396 | 2,25,00,000 |
| „ 15th March 1900 | 4,96,41,326 | 10,82,66,608 | 2,25,00,000 |
| „ 31st March 1900 | 5,23,72,122 | 11,25,00,187 | 2,25,00,000 |
| „ 15th April 1900 | 4,13,32,582 | 11,78,55,657 | 2,25,00,000 |
| „ 30th April 1900 | 3,69,69,539 | 11,94,94,965 | 2,25,00,000 |
| „ 15th May 1900 | 3,66,18,336 | 12,39,23,178 | 2,25,00,000 |
| „ 31st May 1900 | 4,67,03,314 | 12,47,47,395 | 1,50,00,000 |
| „ 7th June 1900 | 4,76,11,309 | 12,52,31,860 | 1,50,00,000 |
| „ 18th June 1900* | 5,47,36,063 | 12,56,64,331 | 75,00,000 |
| „ 22nd June 1900† | 5,96,27,989 | 12,57,86,505 | 75,00,000 |
| „ 30th June 1900† | 6,93,63,359 | 12,72,78,445 | 75,00,000 |
| „ 7th July 1900† | 6,91,11,510 | 12,81,72,639 | 75,00,000 |
| „ 15th July 1900† | 7,04,27,913 | 12,81,85,681 | 75,00,000 |
| „ 22nd July 1900† | 7,11,96,228 | 13,31,70,976 | 75,00,000 |
| „ 31st July 1900† | 6,99,60,523 | 13,03,80,786 | 75,00,000 |
| „ 7th August 1900† | 6,57,83,707 | 12,77,28,222 | 75,00,000 |
| „ 15th August 1900† | 6,13,61,648 | 12,69,36,741 | 75,00,000 |
| „ 22nd August 1900† | 5,79,71,935 | 12,72,03,794 | 75,00,000 |

* The 18th instead of the 15th June is taken so as to include the transfer of 500,000*l.* of the gold held in London which took place on the 16th June.

† These later figures were added after this minute was written.

4. It is important to enquire into the causes which have led to this unexpectedly rapid accumulation of gold in the Currency Reserve. Increase of population, economic development, and wastage of coins are all causes which must produce a steady demand for additions to the coin circulation, and though my impression is that, under ordinary circumstances, India requires relatively only a very limited circulation, I am inclined to think that, even without abnormal influences, the amount of coin in circulation had latterly become insufficient to meet ordinary requirements.

5. But, besides the ordinary factors inducing demands for an increase of currency, abnormal influences have recently very seriously affected the situation. The great bulk of the population is purely agricultural. The agriculturist, in ordinary times, has little requirement for money in the shape of silver coin; he is himself the producer of a large proportion of the food he consumes and his other wants which must be satisfied by purchase are trifling. In seasons of famine, however, the situation is changed. The food consumed by the suffering agriculturist must be purchased and paid for with coin, and as credit dries up in times of distress, all his other requirements must equally be paid for in cash.

6. I think that we have only to consider the vast numbers who, under ordinary circumstances, produce their own food and enjoy credit for their small purchases and whose wants can now only be supplied by cash purchases, to realise the enormous increase in the circulating medium required to meet this unusual situation. I conclude, therefore, that the chief cause of the continual tenders of gold which has passed into the Currency Reserve is the large and unusual demand for rupees induced by the famine, and that the general supply of rupees being limited and proving insufficient to meet these extraordinary requirements, a drain was caused on the Currency Reserve,

where, alone, a certain number of rupees could be immediately procured by tendering gold for exchange ; further, I may point out that, if my supposition as to the cause of the drain be correct, there is nothing to check it as long as famine continues to cause an unusual and increasing demand for silver coin.

7. The demand for rupees, which rapidly developed in the spring months, has been very great, and the impossibility of immediately satisfying it led to serious and unpleasant consequences in April last. On 11th April the officials of the Currency Department in Calcutta, who, early in the day, had been obliged to refuse to cash currency notes for three lakhs of rupees presented by an important firm in the ordinary course of business, were finally obliged to close the office before the proper time, having no further rupees in hand to meet the current requirements of the general public. This failure in Calcutta was accompanied by the failure of the Treasuries in Cawnpore and elsewhere in the North-Western Provinces to cash notes, which, though not bound by the law to do (elsewhere than at the offices of the respective issue circles), they had been in the habit of doing. In Calcutta much inconvenience was caused to the mercantile and manufacturing community whilst in the provinces, not only were traders and manufacturers inconvenienced, but currency notes immediately became subject to a serious discount reaching to $\frac{7}{16}$ per cent. even in an important commercial centre like Cawnpore, and thus showing that the confidence of the general public in the fiduciary note currency has been unpleasantly shaken.

Such a state of affairs, if not promptly remedied, would inevitably have led to furthur increasing demands, impossible to satisfy, for encashment of notes at all the Treasuries throughout India.

8. The Government promptly took the only possible measures to meet the situation and made considerable purchases of silver for coinage. The total amount of silver so purchased since the beginning of the financial year will, with the 500,000*l.* worth bought in March, result in a total addition of above $4\frac{1}{5}$* crores of rupees to the circulating silver currency. The purchase, transport from Europe, and coinage of silver unfortunately, however, take considerable time, and it was evident that if the demand for rupees, in exchange for tendered gold, continued unabated, requirements would continue to exceed the supply, pending the coinage of the new rupees ; it was, therefore, reluctantly determined to temporarily check the importation and tender of gold, by deferring payments for gold bullion tendered at the mints, for 60 days after acceptance By these measures and by the energy of Mr. Cox, the Comptroller-General, in arranging for the rapid transfer of balances from one Treasury to another, the crisis was passed without more serious results than I have mentioned, but it is imperative to take steps to prevent the recurrence of such a situation, and it must be admitted that all the measures enumerated as recently taken were more or less open to objection.

9. The rapid increase of the rupee coinage, without some definite guiding principle regulating the limits of increase, is to be deprecated as likely to induce whatever dangers are to be feared from a subsequent redundancy of rupees. The checking of the importation of gold, even though temporary, when suddenly decided on, must prejudice the legitimate operations of private importers, and, in any case, measures tending to impede the free importation of gold are directly opposed to the wise general policy encouraging such importation. Even abnormal transfers of Treasury balances are objectionable as involving considerable expense and upsetting the carefully considered plans for the manipulation of these balances.

10. It is evident that had the Currency Reserve not been overweighted by the accumulation of gold, the sudden demand for a large number of rupees could have been sufficiently met to give time for further coinage,

* This includes the outturn (about 351 lakhs) from 1,500,000*l.* worth of silver purchased in England in quantities of half a million's worth at a time, and also the outturn (about 69 lakhs) from the Native State coin and silver bullion borrowed from Gwalior and to be repaid next year at its value as bullion. It does not include the outturn from the last purchase (of 400,000*l.* worth) in England, or from the purchases in India in 1899–1900.

without incurring all the difficulties which have been experienced during the last few months, and it would therefore seem necessary to take measures for reducing the proportion of gold now held in the Reserve. The question of the advisability of taking such measures involves, however, other important considerations.

11. The recorded opinion of the Currency Commission is unanimous as regards the necessity of a certain gold reserve being held for exchange purposes. No very definite decisions appear, however, to have been arrived at as to the manner of obtaining the gold to form the desired reserve, the conditions under which the reserve fund should be held, or the amount of gold which it is desirable to hold in such a fund. Circumstances, which I have already described in these notes, had, however, already led to a commencement of accumulation of gold in the Currency Reserve at the date when the report of the Currency Commission was published, and this accumulation has, under the influence of extraordinary famine requirements for rupees, since rapidly increased, until on 15th May last we had in the Currency Reserve $9\frac{3}{4}$ millions sterling of gold, equal to a proportion of exactly $\frac{4}{5}$ths of the total stock of bullion and coin held as security for the note issue. By the 18th June the situation had been improved by the release of one million of the gold held in London, and the gold then held in the Currency Reserve was 8,877,622*l.*, or over two-thirds of the whole coin and bullion reserve. The stock of gold we now hold may thus be taken at nine millions sterling.

12. The question of the amount of gold which it may be safe to hold in the Currency Reserve was discussed last November, when the Comptroller-General pointed out very clearly the dangers which might ensue from the accumulation of too large a proportion. At that date the Comptroller-General expressed the opinion that more than 5,000,000*l.* could not be held in the reserve in safety, and the Honourable Mr. Dawkins, in a note dated 1st December 1899, indicated seven to eight millions as an amount which might be admitted under favourable circumstances. Any decision was, however, reserved until experience should have thrown more light on the subject, but I venture to submit that it has now become necessary to take a decision on this point, in conjunction with that of the proper manner of dealing with coinage profits.

13. And first, I would call attention to certain circumstances and conditions in connection with the accumulation of the existing stock of gold in the Currency Reserve. The sole object for which the Currency Reserve was originally constituted was to provide the necessary security for the encashment of notes, on presentation, and there was certainly no idea of utilising the funds so held for exchange or any other purpose not directly connected with security for the note issue. The connection which has now arisen between the Currency Reserve and the maintenance of exchange appears to me to have come about in a somewhat fortuitous manner. It is of course evident that it is unnecessary to hold the whole of the funds constituting the security for a paper currency in the coin in which the notes issued are payable on demand, and it has, therefore, been admitted that a certain proportion of such funds may be invested in some readily convertible security. The amount thus invested by the Government of India has been varied from time to time, in proportion to the amount of paper currency circulating in the hands of the public, and now stands at 10 crores. The decision fixing the limit of 10 crores was taken after considerable discussion in 1896, and even if it be admitted that this was the maximum prudent limit of safety at that date, circumstances have since shown that it is a limit which can now be safely exceeded. It has been exceeded by the amount of the stock of gold now existing in the Currency Reserve.

14. The fact is that, whereas it is essential that the Currency Reserve shall provide a sufficiency of the class of coin which the public have the right to demand in exchange for notes which they may present for encashment, the existence of gold in the reserve, although it has been declared legal tender, cannot satisfy the legitimate requirements of the public as regards such demands. Owing to the smallness of the sums representing an enormous

proportion of commercial transactions; and the very conservative habits of the people, no one at present requires gold as a circulating medium in India, and consequently the existing stock, as far as currency purposes are concerned, is of no immediate practical value in case of sudden demands for the encashment of notes. The only way in which it represents suitable security for the paper currency is that it is convertible by sale into silver bullion, from which bullion rupees may be coined. Hence under existing conditions the gold in the Currency Reserve can only be considered as an investment subject to the same conditions as the 10 crores held in Government securities, and in permitting the present large gold investment the limit of safety for the conversion of notes into the circulating medium required by the people has been passed, and serious difficulties have been encountered, whilst we are far from having acquired the stock of gold requisite for exchange purposes.

15. As a result of these considerations it must, I think, be admitted that the amount of gold which can safely be held in the Currency Reserve must for the present be regulated by the same rules as would guide the consideration of the amount by which the proportion invested in Government securities could be safely increased. Pending an increase in the note circulation (which is, I think, to be desired, and which can, I believe, be attained) or some other change in existing conditions, I am of opinion that a maximum sum of approximately 7,000,000*l.* in gold may now be safely held in the Currency Reserve. I should not, however, wish to be bound absolutely to this figure, which is necessarily an arbitrary one, and particularly I should not wish any public announcement to be made which might seem to tie the hands of the Government in the event of circumstances, at present unforeseen, rendering its reduction hereafter desirable.

16. If it be accepted that 7,000,000*l.* is the maximum sum which, under existing conditions, can be held in gold in the Currency Reserve, in addition to the 10 crores already invested, it is evident that such assistance as can be obtained from manipulating the reserve will fail to provide the sum in gold which it is considered advisable to hold in connection with the maintenance of a steady exchange. So far no authority has ventured to name a definite sum which should suffice for this purpose, but there is a general consensus of opinion, in which I fully concur, that a very considerable sum is required. The most ready way of obtaining such a large sum is by gold borrowings, but the opinion of the Currency Commission was strongly hostile to such a course, and the question, therefore, remains unanswered: How is the necessary stock of gold to be obtained?

17. I do not presume to offer any cut and dry solution of this difficult problem, but I venture to offer certain suggestions which, if adopted, would, I believe, go a considerable way towards meeting the difficulty. I propose to create a special "Gold Exchange Fund" independent of, but in case of *extraordinary* requirements for exchange purposes to be used in conjunction with, the gold resources of the Currency Reserve. The foundation of this fund would be the profit to be realised by converting into rupees the excess above 7,000,000*l.* now held in gold in the Currency Reserve. The total sum in gold held in this reserve being to-day about nine millions sterling, the profit on the proposed operation would be about 700,000*l.*

18. To the 700,000*l.* thus provided should be added the profits on coinage since the commencement of the financial year, amounting to 1,000,000*l.* The money representing these profits has, for the moment, been employed to meet demands in connection with the famine, and particularly to enable Government to make large loans and advances to Native States, which include a loan of two crores to the Nizam, but, though profits on coinage form part of our general resources, I am in full accord with the Currency Commission in considering that they should not be treated as revenue, but should be set aside for currency and exchange requirements, and the 1,000,000*l.* which has now been temporarily employed to meet pressing demands should be paid into the "Gold Exchange Fund" as reimbursements of the loans are effected.

I would thus open my new reserve fund with a combined cash and creditor balance amounting to nearly 1¾ millions sterling, whilst 7,000,000*l.* would still be held in gold in the Currency Reserve.

19. But this initial reserve is evidently too small, and measures should be taken to strengthen it. In the first place the fund should be steadily increased by the addition of profits on future coinage. It is impossible to say what annual additions to the rupee currency may be required to meet the demands induced by economic development (in which I expect that railway development will take a large part, if we are able, as I hope we may be, to give some impetus to railway development), and by wastage; but from such data as I have been able to obtain, I think it quite likely that the demands on these accounts will reach two crores of rupees per annum, on which the profits to be passed to the Gold Coinage Reserve would be approximately 475,000*l.* per annum.

20. I now pass to the consideration of further measures which may, and should, I think, be taken to provide for additional automatic increase of the stock of gold to be held in the Gold Exchange Reserve. I have already pointed out that the accumulation of gold in the Currency Reserve was due to fortuitous circumstances, and that although up to a certain point it served a most useful purpose, it has nevertheless been proved that the stock of gold which can be held in the reserve can never become adequate to meet the contingencies of exchange requirements, while it may be productive under certain circumstances of considerable difficulties; and I have shown that there is no practical difference under existing conditions between investments in gold or in interest bearing securities, as regards the objects for which the Currency Reserve was created by law.

21. The fact is that when the funds in the Currency Reserve were diverted from their original purpose and taken as providing security for the maintenance of a steady exchange, a radical and perhaps uncontemplated change was introduced, and at the risk of being considered somewhat conservative I would venture to suggest that it would be more prudent to revert, as far as possible, to original conditions as regards the treatment of these funds. The original conditions are that all funds in the Currency Reserve must primarily be held with the object and for the purpose of securing the prompt conversion of notes into such coin as the public may legitimately require. The reduction of the stock of gold in the Currency Reserve by the conversion into rupees of the excess above 7,000,000*l.* will, I hope, restore the condition that the reserve should suffice to meet all legitimate requirements for the encashment of notes, but I think that we should go a step further in the same direction, and, as far as possible, follow the old rule of investing such portion of the Reserve as is not required to be held in coin for the conversion of notes. I would propose then to invest at least 5,000,000*l.* of the 7,000,000*l.*, which I consider might now be held in gold independently of the necessity of providing for the *immediate* exchange of notes into rupee coins. The investment should, of course, be made gradually, though at as early a date as may be permitted by practical considerations in connection with all classes of investment and proper care to avoid undue depletion of our stock of gold metal.

22. I should like to see the total invested securities increased to the equivalent of 12,000,000*l.*, and I think that there would be no objection and even a certain advantage in retaining in gold the uninvested surplus of the 7,000,000*l.* which we think may continue to be held otherwise than in rupees, without affecting our capability to give rupees for notes when required.

23. The next question is the form in which the proposed investment may best be made. I would propose to invest the sum taken from the 7,000,000*l.*, now in gold, in British Government Funds. I would further propose to gradually convert the present investments in rupee paper into Indian Government gold securities, and when these operations were completed we should have about 12,000,000*l.* in readily saleable gold securities bearing interest at an average rate of about 3 per cent.

24. The interest on 12,000,000*l.* at 3 per cent. would yield annually 360,000*l.*, and I have no hesitation in saying that, as long as funds are required for currency and exchange purposes, this annual sum should be devoted to increasing the stock of gold in the Gold Exchange Fund. In five years, allowing for compound interest, we could add from this source about 1,960,000*l.* to our stock of gold, and in 10 years about 4,250,000*l.*

25. The net result of my various proposals would be that including gold to be immediately placed in the Gold Exchange Fund, gold to be paid into that fund on the reimbursement of famine loans, gold now existing and to be maintained in the Currency Reserve, profits from future coinage, and accumulation of interest on gold investments belonging to the Currency Reserve, we should, five years hence, hold a stock of gold of about 8,500,000*l.*, and in another five years we should have added nearly 4,500,000*l.* more. Further, in case of necessity, we should be able to replenish this stock by the profit on the sale and conversion into rupees of our readily saleable gold investments, amounting to 12,000,000*l.*, whilst our resources for giving rupees for notes from the Currency Reserve would remain intact.

26. I do not lose sight of the fact that, however readily saleable our gold investments, they are not quite the same thing as actual gold, but holding such a sum as I contemplate in the actual metal, there would, under all conceivable circumstances, be plenty of time to effect gradual sales of the securities for the replenishment of the stock of gold, should the necessity arise.

27. In my calculations of the stock of gold which it may be possible to accumulate within a given period, I have taken no account of the possibility of a continued influx of gold resulting from such heavy demands for rupees as we have recently experienced, but I have traced the causes of these demands and stated my reasons for considering them as abnormal, and once the amount of circulation is brought up to the level of normal requirements and the pressure caused by famine requirements is relieved, I believe that a steady annual addition to our rupee circulation (which I have tentatively estimated at two crores) will prevent the recurrence of undesirable pressure and the resulting spasmodic importation of gold.

28. There remains for consideration the question of proper manipulation of the funds which may be accumulated for the purpose of meeting currency requirements and regulating exchange.

29. As regards currency requirements, I do not think that there is any difficulty in arriving at a decision. The resources of the Currency Reserve must in the first place be kept equal to providing for the encashment of notes on presentation, in rupees, and I have proposed for this purpose to hold in silver coin any excess in that reserve above the combined amount of the 10 crores now invested, together with the 7,000,000*l.* which I propose to hold in gold and gold securities. Any excess of gold above the sum indicated should be immediately converted into rupees by the purchase and coinage of silver bullion. This general rule will apply as long as the demand is for rupees, but the converse case may arise; it may happen that for the legitimate purposes of trade there may be demands for gold for which rupees may be offered, and that unless this demand for gold is promptly met within reasonable limits, an undesirable fall in exchange would result. Such demands may temporarily be heavy, though I do not think that they are likely to be prolonged. To meet them it will be necessary to give gold out of the Currency Reserve and replace it by the nominal equivalent in rupees; but the amount of gold in the Currency Reserve will be very limited and may easily prove insufficient to meet legitimate requirements, and it will then be necessary to fall back on the stock in the Gold Exchange Fund.

30. Should this necessity arise, I would, in the first instance, retain in the Gold Exchange Fund the rupees which I had been obliged to accept in exchange for gold, in the hope that the demand for gold might prove temporary, and that I might, at not too great an interval of time, be able to once more exchange these rupees for gold to meet demands caused by a contrary current of trade requirements. I would defer as long as possible the expedient, which I look upon as a last resource, of melting down rupees and selling the bullion for gold. Before being driven to such extremities as the adoption of this measure would indicate, we should fall back upon the resources offered by the gold securities held in the Currency Reserve. These securities could, as occasion might arise, be transferred to the Gold Exchange Fund, their place in the Currency Reserve being taken by rupees drawn from the former fund, and when thus transferred they might gradually

be sold to meet requirements. I should point out that under the circumstances referred to, the transfer of rupees to the Currency Reserve, in replacement of investments withdrawn from that fund, could not cause any practical difference in the constitution of this reserve, for although the rupees transferred to the Currency Reserve would not afford any provision for the encashment of notes in the form of currency at the time in demand, the presence of the gold investments belonging to the Currency Reserve would equally fail to provide for the same demand.

31. It may be objected to my proposals that the result of their adoption would be, at the outset, to diminish the stock of gold we now hold, and that it would take some time before the various measures I have suggested would make good that loss.

I think the practical answer to that objection is that practical necessity has already obliged us, without any theorising, to diminish the stock of gold by drawing on it for the purchase of silver to be coined into rupees, and that no definite proposals have hitherto been made for providing for its automatic increase without renewing the difficulties we have experienced through an inconvenient accumulation in the Currency Reserve. The system I have proposed will not reduce by one sovereign the amount of gold which, whilst depending, as we do now, solely on the resources of the Currency Reserve for its retention, we can hold with safety. It does provide for the future automatic increase of our stock of gold, though I admit at a slower rate than is desirable, but half a loaf is better than no bread, and if we adhere to the resolution of declining to borrow to increase our gold stock, I fear that it is impossible to devise any system by which we could attain our desired ends more rapidly.

32. I now conclude, and in so doing I venture to repeat that it has been generally admitted that we should hold a considerable stock of gold for exchange purposes—that no proposal has been authoritatively put forward for providing this stock of gold without sterling borrowing—that the expedient of accumulation of gold in the Currency Reserve has passed the limits of safety and has brought us into difficulties—that it is imperative to prevent the recurrence of such difficulties—and at the same time it is necessary to decide on the means to be adopted for acquiring the stock of gold required to ensure the success of our general currency policy.

(Signed) E. FG. LAW.

28th June 1900.

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## II.

### MINUTE BY HIS EXCELLENCY THE VICEROY.

The main proposal of Sir E. Law is the creation of a new Gold Exchange Fund, the objects of which are clearly described, and the methods of constituting which appear to be the following:—

(1) It is proposed to set aside the recent and all future profits derived from the coinage of silver, to be kept in gold as the nucleus of this fund—to be available for the withdrawal of rupees from circulation and to prevent redundancy of coin, should this be found necessary at a later date. There are some who decline to believe that such a redundancy is at all likely to occur, and who say that however fast we may coin our rupees, we shall find a use for them. I understand Sir E. Law, however, not to share this confidence. The initial objection may be raised that by whatever sum is thus withdrawn from our general balances, we shall increase the amount of our annual loan (which cannot, I imagine, be denied), and it may be said that this is doubtful policy, seeing that we always have to pay more for our investments than we receive from our borrowings. Notwithstanding this objection, the scheme now put forward, which was first suggested by the Currency Committee (paragraph 60), may be justified if its object be to maintain our stock of gold, and thereby to ensure the success of the currency policy upon which we have embarked. Sir E. Law proposes to make a start with the one

million sterling of profits which has already accrued from our very heavy coinage in the present year. He speaks of this million as having already been employed, and this I understand to be the case. But if this be so, and if we have to pay the equivalent into the new Gold Exchange Fund, will it not mean an addition to the amount that we shall have to raise by loan at our next borrowing?

(2) From paragraphs 24 and 25 of Sir E. Law's minute I gather that a further source of supply will be "the accumulation of interest on "gold investments belonging to the Currency Reserve." Presumably this also involves a subtraction from our ordinary resources and an addition to the amount of our annual loan—a sacrifice which, as in the former case, may be held to be justified by the ulterior objects in view.

(3) The third constituent of the new fund is to be the profit derived by taking and converting into rupees any excess that there may be over a maximum of 7,000,000*l.* in the gold stock maintained in our Currency Reserve. The excess is at present 2,000,000*l.*, and the profit would be about 700,000*l.*

All these are proposals that strike me as adaptations, adjustments, or developments of our existing currency policy, which are intended to invest it with greater strength, and which may fairly be submitted to the Secretary of State.

2. But there are two more proposals which Honourable Member advances for the still further replenishment of his fund:—

(4) The first of these is to take 5,000,000*l.* out of the maximum of 7,000,000*l.* to which we shall, as above described, have reduced the stock of gold in the Currency Reserve, and to invest it by gradual degrees in British Government Funds, *i.e.*, in Consols. I confess that I do not quite understand this proposal, which seems to me to take away with one hand what has been conferred with the other. If we have just decided that 7,000,000*l.* ought to be kept in gold in the Currency Reserve, why propose to reduce it simultaneously to 2,000,000*l.*? Honourable Member foresees this objection; for he says in paragraph 31 that the result of his proposals will be at the start to diminish the stock of gold which we now hold, and that it will be some time before that loss is made up. But this result and this risk seem to me to be inconsistent with what I understand to be the main object of his policy, namely, the accumulation of a strong gold reserve. By the proposals which I have marked (1), (2), and (3) he has been steadily accumulating this stock of gold; by (4) it seems to me that he proposes to reduce it.

3. Now the 5,000,000*l.* that is thus subtracted from the Currency Reserve is, I understand, to be added to our general currency investment, which would thereby be raised from 10 crores to 17½ crores (7½ crores = 5,000,000*l.*). I would ask, can we do this without legislation? Does Honourable Member contemplate legislation? Has he considered whether the Secretary of State will sanction such legislation and what public opinion will say about it in this country? Moreover, shall we be wise in raising our currency investment to so high a figure in relation to our existing circulation of currency notes? In our Despatch of 18th January 1900 we contemplated "advancing "gradually to a situation in which (instead of having 17 crores of coin as "against 10 crores of securities) one-half of the Paper Currency Reserve "should be in coin and one-half in securities." But the new proposal would appear to invert the proportions and to involve a complete change of policy.

Again I would ask, if it is now considered desirable to increase the currency investment by 5,000,000*l.*, is it necessary to take this sum from that particular source? Honourable Member admits that the process is intended to be gradual. But why should he not trust to his other gradual processes, already enumerated, *e.g.*, profit on coinage, &c.? Will they not in time give him the sum that he desires?

4.—(5) Finally, Sir E. Law proposes (paragraph 23) "to gradually "convert the present investments in rupee paper into Indian Government "Gold Securities." He does not give any other reason for this than the desire to increase the sum total of his saleable gold securities.

But are not our investments in rupee paper very useful, and very easily convertible into rupees in times when, as lately, we have had a great demand for the encashment of currency notes?

I hazard these doubts about (4) and (5) not because I presume to set up my financial authority against that of Honourable Member, but for two reasons: firstly, I am not convinced that they are necessary for the success of his own scheme; secondly, I have a natural suspicion of anything that may tend, in the present early stage of our currency policy, to cause alarm. Most things that the Government of India do in the region of finance are misrepresented; many are misunderstood. We are constantly accused of having no confidence in our policy and of not pursuing it with consistency.

I think that we should be very careful about taking any steps that may seem to give ground for these charges. Events seem on the whole (in spite of the peculiarly unpropitious circumstances arising out of famine and the enormous demand for rupees that we have lately experienced) to be justifying as well as favouring our big currency venture of last year. I think that our motto should be *Festina lente*.

8th July 1900. (Signed) CURZON OF KEDLESTON.

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## III.

### SECOND MINUTE BY THE HONOURABLE SIR EDWARD LAW.

It has been suggested that it might prove a convenience if I were to endeavour to give the explanations asked for in His Excellency's minute dated 8th July 1900. I am very happy to accept this suggestion.

2. In His Excellency's minute, paragraph 1 (1), the view that we pay more for our investments than we receive from our borrowings appears to be fully accepted as exact. I think, however, that with regard to this statement, which may be in the main correct, an important qualification must be borne in mind. The general truth of the proposition, as far as my proposals are concerned, depends on the assumption that the price of future investments made in connection with the proposed Gold Exchange Fund will always be higher than the price which at about the same time we shall be obliged to pay for our loans. I should hope that this assumption will by no means always prove correct, and further, even when the assumed loss is suffered, the difference at approximately corresponding dates, between the prices of investments and new loans should surely be so trifling that it need not be considered as a serious objection.

3. His Excellency in concluding paragraph 1 (1) asks if it will not be necessary to borrow the million which I speak of as forming part of the initial capital in the proposed Gold Exchange Fund. It was not my intention to propose borrowing for this purpose. In paragraph 18 of my former minute I spoke of the new gold fund as to be opened with a combined cash and creditor balance of $1\frac{3}{4}$ millions sterling, my idea being that we might await the gradual reimbursement of the famine loans and advances to Native States to change the creditor portion of the balance into much to be desired cash.

4. In paragraph 1 (2) the presumption that the accumulation of interest on gold investments, forming part of the Currency Reserve, would involve a subtraction from our ordinary resources, is correct.

5. In paragraph 2 His Excellency asks "if we have just decided that "7,000,000*l*. ought to be kept in gold in the Currency Reserve, why propose "to reduce it simultaneously to 2,000,000*l*.?"

6. I have apparently failed to make myself sufficiently clear on this point. I do not hold we *ought* to keep 7,000,000*l*. in the Currency Reserve; I have indicated 7,000,000*l*. as the maximum sum which the general purposes of

the Reserve would permit us to hold with safety. Further in paragraph 26 of my minute of 28th June, I have pointed out that gold securities may for practical purposes be considered as the equivalent of actual gold, since we have only to sell the securities, by telegraph if necessary, to realise the equivalent in actual metal.

7. In paragraph 3 His Excellency asks if our currency investment can be increased without legislation ?

It cannot ; but I am prepared to recommend legislation for this purpose, and independently of the particular question we are now treating, I hold that the experience of this year has proved that we can lock up a proportion of our Currency Reserve equal to the sum of the present investment of 10 crores together with 7,000,000*l.* in gold. We are at the present moment holding considerably more than this combined sum in a form which does not permit of its immediate conversion into rupees.

8. His Excellency in paragraph 3 recalls that in the despatch of 18th January 1900, it was contemplated to advance gradually to a situation in which one-half of the Paper Currency Reserve should be in coin and one-half in securities. It is true that I proposed to go beyond this proportion, but not so very much. The recent average circulation of notes has been approximately 30 crores (I have elsewhere stated that I have considerable hopes of materially increasing this figure) and the half of this sum for investment would be 15 crores. I propose to invest 17½ crores, but I have given what I believe to be sufficient reasons for considering this addition justified by recent experience, and, in any case, I propose to make the investment gradually.

9. In the same paragraph his Excellency asks if gradual processes will not in time give the desired sum in investments.

Undoubtedly they would, if no mishap occurred during the slow process of increase, but the quicker we can secure our accumulation of gold and gold securities the quicker will our position be assured, and I have already given my reasons for apprehending no danger from the acceleration of the process by the measures I have proposed.

10. In paragraph 4 His Excellency observes that I have given no reason for the proposal to gradually convert the present investments in rupee paper into Indian Government gold securities.

I regret the omission ; to make things clear, the reason should have been given in my minute under discussion, but I intended to return to the subject when dealing (elsewhere) with the general questions connected with the circulation of notes, because I consider my proposal to be one of considerable importance as regards the general purposes of the Currency Reserve, and I am anxious to press it from that point of view and independently of any proposals connected with our exchange policy.

11. When the system of investing a certain portion of the Currency Reserve was inaugurated, exchange difficulties had not made themselves appreciably felt, and since the investment was intended to be convertible into rupees, in case of necessity, it was natural that it should be made in rupee paper. To-day the situation is different, the market value and ready convertibility of rupee paper has been prejudicially influenced by exchange difficulties ; there is practically no market out of India for rupee paper, and in India the market is so small and so easily depressed that were we suddenly called upon to realise our existing investments, we should, I fear, most seriously depress their value and create something like a panic.

12. I may point out that investments in gold securities cannot be prejudicially influenced by exchange fluctuations. When it is desired to realise gold securities they can, in the large market which they command, be immediately sold for gold, which can be used if that metal is required, and if rupees should be required the gold realised can purchase silver bullion to be coined with profit into rupees.

13. For these reasons, which I am confident would be perfectly accepted by the financial world, I strongly desire, as a measure of safety, to see our rupee investments converted into gold securities as rapidly as the exercise

of most necessary caution not to unduly disturb the market for rupee paper, may permit. This proposal I should wish to put forward on its own merits and quite independently of any indirect connection with the exchange question.

14. I trust that the consideration of these explanations will make it clear that I am not proposing any new departure, but solely seeking to consolidate our position on the lines of policy already adopted, and to accelerate the accumulation of the stock of gold on which the assured success of that policy mainly depends.

15. It is not sufficient to adopt a policy in theory. The practical working of the adopted policy must be carefully watched, and whilst holding fast to the general principles we have accepted, we must be ever ready to adopt such minor measures or modifications in detail of practice as experience may show to be necessary to assure the success of the policy we have accepted.

27th July 1900. (Signed) E. FG. LAW.

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## IV.

### THIRD MINUTE BY THE HONOURABLE SIR EDWARD LAW.

It has been suggested that I should endeavour to summarise, with such explanations as may seem necessary, the conclusions arrived at on the questions treated in this file as a result of their discussion in the Executive Council.

In the first place, the question was discussed as to what should be understood and accepted as regards the proposals in paragraphs 21, 22 and 23 of my notes for the gradual investment in gold securities of sums belonging to the Currency Reserve and now held in rupee paper or in gold.

As regards the conversion into Indian Government Sterling Bonds of the 10 crores now held in rupee paper, I have pointed out, and it was accepted, that this conversion must be very gradual and would take a long time to effect. It is evident that if the issue of a loan of three crores in rupee paper causes, as was shown by the experience of the recent loan, a strain on the resources of the limited market for this class of security, the said market would be easily glutted by the attempted sale of any large quantity of these securities and the result would be highly prejudicial to our general financial interests, both as regards the depreciation of our stock and as regards compromising the success of further issues of similar securities. If general conditions were to remain as at present, I do not think that it would be possible, with due regard to these interests, to sell more than one crore of rupee paper in a year, so that it might take 10 years to complete the proposed conversion, but we may fairly hope that it will not be long before the general popularity of this class of security may, by judicious measures, be sufficiently improved to offer a stronger market, and consequent increased facility in advantageously disposing of stock.

On this question I may perhaps point out that the greater the recognised difficulty in realising our present investment, the less suitable must it be recognised to be for the particular purpose for which it is held, namely, the guaranteeing of our issue of notes.

As regards the investment of a portion of the gold now held in the Currency Reserve, in British Government Funds, the process of investment must also be comparatively slow, or the investment would be made under disadvantageous conditions, in consequence of the rapid rise in price which would result from the hurried purchase of large blocks of stock.

On the further question of the total proportion of the Currency Reserve Funds which might be prudently invested, the result of discussion showed a general consensus of opinion that it would not be advisable to propose, for the present, the investment of a larger proportion than 50 per cent., for though we have been struggling without accident, since the end of April, with a proportion of rupees in our Currency Reserve varying from Rs. 3,66,18,000 or 12·9 per cent. minimum to Rs. 7,04,28,000 or 23·0 per cent. maximum, the formal decision to limit our cash holdings to even one-third of our liabilities might appear disquieting to the commercial community.

I may here mention that on the last occasion when the mercantile and banking community was consulted as to the increase of the investment of Currency Reserve Funds, Lord Elgin's Government, in their despatch of 2nd June 1896, summed up the opinions received as follows: "We consulted the Presidency Banks and the Chambers of Commerce in this country on the subject. The replies show that none of these bodies calls in question the proposal to make this increase in the investment on the ground that it would diminish the security for the convertibility of the currency note; the mercantile and banking opinion is practically unanimous that in increasing the investment by two crores there is no risk whatever so far as the convertibility of the note is concerned."

The despatch continued with further observations which, I think, I should also quote as being very pertinent to the present proposals and as perfectly expressing my own views on an important side of the general question. The Government of India wrote: "We believe that strong objection would be taken to our manipulating the currency reserve with the intention of producing any effect upon the exchange value of the rupee. For the same reason we are inclined to doubt whether, when a measure affecting the currency reserve is proposed from the point of view of paper currency reserve, pure and simple, we ought to allow ourselves to be influenced by the possible effect which a measure, desirable from a Currency Reserve point of view, may have upon the exchange value of the rupee."

The general question of the advisability of legislation affecting our exchange policy was discussed in Council, and the view was, I think, unanimously accepted that such legislation should, if possible, be avoided. I venture, however, to point out that though legislation would be necessary for increasing our Currency Reserve Investments, such legislation might, and I think should, be undertaken quite independently of any question which we may have to consider in connection with our exchange policy.

I hold very strongly to the view expressed in the passages which I have quoted above; and though I must accept that, as a last resource, we must, in case of exchange difficulties, make the fullest use of whatever gold or gold securities we may hold in the Currency Reserve, this is a last resource, and, when the Gold Exchange Fund which I have proposed is established, it is on the resources of that fund that we must primarily and publicly rely to meet ordinary requirements for exchange purposes.

(Signed) E. FG. LAW.

23rd August 1900.

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 232, dated 13th December 1900.

MY LORD,

I HAVE considered in Council your Excellency's letter dated the 6th September, No. 302, on the subject of the formation of a special Gold Reserve, on a basis sufficient to ensure the success of the policy adopted by the Government of India, with the view of placing its currency system on the gold standard.

2. I must begin by expressing my high appreciation of the ability with which Sir Edward Law has treated this important subject, and of the care shown in dealing with various questions of detail connected with it.

3. Of the advantage of maintaining a special Gold Reserve I am fully convinced; and, in order to mark the primary object of its formation, it appears to me that the title to be assigned to it should be the Gold Standard Reserve.

4. The first proposal made by Sir Edward Law, for the purpose of constituting such a Reserve, which receives the unanimous support of your Government, is that the profits on the coinage of rupees should not be credited to the Revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in gold (an expression in which he appears to include securities saleable for gold) as a special reserve entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances.

5. This proposal is in harmony with the 60th paragraph of the Report of the Indian Currency Committee, and I fully concur in the principle which it enunciates. As a matter of account, however, it appears to me that it will be desirable that the profit made by the coinage of rupees should, as in the case of all similar operations, continue to be shown as Revenue under the head of Mint, while on the side of Expenditure will be exhibited the charges in connection with the coinage, and also the payment of the net profit to the Gold Standard Reserve. The latter sum will thus be credited below the line under the head of Deposits or Remittances; and, when the remittance to England is effected, it will be debited under the corresponding head. In a subsidiary account will be shown the complete transactions in connection with that Reserve.

6. In order to ensure the due application of the gain made through the coinage, it is advisable that your Government should once in three months make up an account of the receipts and charges, and should forthwith remit the net profit to be held by the Secretary of State in this country.

7. It does not appear necessary to specify precisely in what gold securities the reserve shall be invested, whether in Consols or India Stock, or in any other manner. This will be at the discretion of the Secretary of State in Council from time to time, and the result will be periodically reported to the Government of India, and published in its Gazette.

8. While, however, I am in favour of the institution of the Gold Standard Reserve, with effect from the beginning of the current year, I do not overlook the difficulty mentioned in the 11th paragraph of your letter, arising from the circumstance that the receipts from the coinage of rupees in 1900-01, having come into your balances, have already been applied in the relief of famine, or in loans to Native States, and that they could not be at once invested for the Gold Standard Reserve without resort to further borrowing. I therefore authorise you to remit the net profit which you have made this year as you may be able to provide the money out of surplus receipts in this and subsequent years. This remittance may be effected either in the shape of gold, or, when there is a sufficient demand for bills on India, by agreeing to meet them in excess of the amount required for the other Home disbursements.

9. I trust, however, that this special arrangement will not be needed for future years, and that from the 1st April 1901 the regular appropriation of the funds applicable to the Gold Standard Reserve will be rigidly maintained.

10. The second proposal, in which also your Government concurs, is to add to the special reserve the annual interest on the investment of the Paper Currency Reserve, amounting at present to Rs. 34,70,000. I must point out, however, that the two reserves will be quite distinct, with different objects; and there appears to me to be no special reason why the interest on the securities of the one reserve should be assigned to the transactions of the other. I am of opinion, therefore, that, for the present, it will be better to adhere to the existing system.

11. In the third recommendation, namely, to use in future for the purchase of silver for coinage into rupees any excess over 7,000,000*l.* in the stock of gold in the Paper Currency Department, you also fully concur. The circumstances of the past year have, however, been exceptional in various ways, and it does not appear practicable to base on them any final decision as to the amount of gold which it is prudent to hold in the Currency Reserve; but I agree that that amount may for the present be taken as the maximum which it is desirable to retain, though no pledge should be given to the public on this point. Any excess over 7,000,000*l.* would, in ordinary course, be spent in the purchase of silver for coinage into rupees; and it would probably be desirable that, even if there were no such excess, the Secretary of State should hold in London a portion of the gold, in order that it may be used in the purchase of silver, when the latter can be obtained at a moderate price.

12. The other proposals made by Sir Edward Law refer to the investment of the Reserves. No. 4, suggesting the gradual transfer of the Rupee Securities of the Paper Currency Department into India Sterling Securities,

is recommended by your Government if it can be effected without fresh legislation; but I am advised that this is not the case. No. 5, to increase the amount of the Paper Currency Investment, to make the additional investment in British Consols, and to obtain the funds by reducing the stock of gold in the Currency Reserve, is, as you observe, open to the objection that fresh legislation could not be avoided. Even, however, apart from this consideration, I feel that there are serious reasons against the adoption of the measures proposed, and I am unable to sanction them.

13. In the 15th paragraph of your letter you pressed on me the necessity for a further purchase of silver, and you have by telegraph added other demands.

The following is a statement of the amount bought during this calendar year:—

| —— | Amount. | Average Price per oz. including all Charges. |
|---|---|---|
| | £ | d. |
| 1st instalment, 6th to 24th March - - - - | 500,000 | 27·99 |
| 2nd instalment, 23rd April to 4th May - - - - | 500,000 | 27·77 |
| 3rd instalment, 14th to 28th May - - - - | 500,000 | 27·84 |
| 4th instalment, 12th to 22nd June - - - - | 400,000 | 28·02 |
| 5th instalment, 5th to 17th September - - - - | 500,000 | 29·19 |
| 6th instalment, 27th September to 8th October - - - | 500,000 | 29·77 |
| 7th instalment, 19th to 26th October - - - - | 500,000 | |
| 8th instalment, 29th November to - - - - | 500,000 | |
| | 3,900,000 | |

This is in addition to the amount obtained by your Government in India; so that altogether the number of rupees by which the circulation will have been increased must considerably exceed nine crores. I have in each instance acted on your application, feeling assured that your Excellency would not desire to enhance the volume of rupees in circulation beyond what seemed absolutely necessary.

I have, &c.,
(Signed) GEORGE HAMILTON.

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Telegram from VICEROY, dated 26th March 1901.

In view of present low price of Consols, we suggest your consideration of advisability of investing, on behalf of Gold Reserve Fund, say half a million sterling. If you make the investment we can ship another half a million sterling at once.

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SECRETARY OF STATE to VICEROY, dated 29th March 1901.

Your telegram 26th. Send gold as proposed. Mode of investment under consideration.

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Telegram from VICEROY, dated 10th April 1901.

Your telegram of 29th March. Japanese yens, weighing 131,379 ounces, actual value 502,224*l.*, will be shipped by "Borneo," leaving Calcutta 16th April.

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Telegram from VICEROY, dated 10th January 1902.

We have now nearly two and a half millions gold in Gold Reserve Fund. We propose embarkation of half a million for investment immediately. We hope that you will be able to arrange for remittance of remaining two millions by free sale of Councils in next three months, and so save cost of specie remittance.

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Telegram from VICEROY, dated 9th July 1903.

Propose sending home 260,000*l.* sterling, partly bazar gold, balance sovereigns, for investment on account of gold reserve, unless we hear to the contrary in a week or ten days. We beg to recommend investment in sterling security other than Consols.

Letter from the GOVERNMENT of INDIA to the SECRETARY OF STATE, No. 229, dated 30th July 1903.

MY LORD,

IN the Viceroy's telegram, No. 4147 A. of the 9th instant, in which we proposed sending home 260,000*l.* in gold for investment on account of the Gold Reserve Fund, we recommended that the investment should be made in some sterling security other than Consols. We have now the honour to explain our reasons for this recommendation.

2. We observe from paragraph 7 of your Despatch No. 232 (Financial), dated 13th December 1900, that your Lordship did not think it necessary to specify precisely in what gold securities the reserve should be invested, and that you left it to the discretion of the Secretary of State to vary the investment from time to time. We understand, therefore, that there is no strong objection to our proposal, and we consider that it would be advantageous in several ways.

3. In the first place the investment of a part of the fund in securities, such as those of the London County Council or our own sterling stock, carrying a higher rate of interest than Consols, would add materially to the receipts of the fund, and accelerate its growth. The sum at present standing at the credit of the fund is not in our opinion sufficient to meet all possible contingencies, and we should be glad to take any legitimate means of raising it to a higher figure. We regard investment in 3 per cent. securities of good standing as a proper means to this end.

4. There are many local securities in the United Kingdom, as well as our own stock, which appear to be desirable investments; and it would, we think, be an advantage to possess some of these instead of keeping all our reserve in one class of security. In the event of our having to realise a portion of the fund, we should probably get better prices if we had a choice of stock to put on the market, and the simultaneous sale of securities of different classes would not have the same prejudicial effect in depreciating the value of our investments as if they were all of one class.

5. Should your Lordship think it advisable to purchase India stock on account of the fund, the investment would have the further advantage of relieving the market for this stock, and might have the effect of strengthening our credit in London. An objection might possibly be raised to the effect that, in the event of our being obliged to draw on the Gold Reserve Fund to meet a fall in exchange, the value of Indian securities would be depreciated so that it would be inadvisable to put them on the market. We do not, however, regard it as at all certain that the latter result would follow. Our credit in the London market is now more dependent on the supply of capital loanable at low rates of interest in that market than on the exchange relations between India and the United Kingdom; and a temporary contraction of our exports to a point affecting exchange would not necessarily reflect on our credit as a borrower. We do not, therefore, apprehend that the investment of a portion of the Gold Reserve Fund in our own securities would be unsafe or likely to lead to serious oss on realisation.

6. The above are the grounds on which our recent recommendation was based. We shall be glad if your Lordship will take them into consideration when making future investments on account of the Gold Reserve Fund.

We have, &c.,
(Signed) CURZON.
KITCHENER.
T. RALEIGH.
E. FG. LAW.
E. R. ELLES.
A. T. ARUNDEL.
DENZIL IBBETSON.

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 159, dated 11th September 1903.

MY LORD,

I HAVE considered in Council your Excellency's Financial Letter, No. 229, dated 30th July 1903, in which you explain your reasons for recommending in your telegram of 9th July that the sum of 260,000*l.* which was recently sent by you to this country for investment on account of the Gold Reserve Fund should be invested in some sterling security other than Consols.

2. That recommendation, as you have been informed in my telegram of the 16th July, has been approved by me; and sums of 175,000*l.* and 81,988*l.* have been invested in National War Loan Stock, at prices of $97\frac{1}{2}$ and $97\frac{3}{4}$ respectively.

3. You now submit for my consideration the further question whether India sterling stock should be included among the securities in which investments may properly be made on account of the Gold Reserve Fund.

4. You recommend an extension of the field of investment on the grounds that (1) it is inexpedient to keep the whole of the reserve in one class of security, and (2) that by investing the Fund in securities carrying a higher rate of interest than Consols its growth may be accelerated, an object which it is desirable to attain by any legitimate means. I assent to both these propositions. In favour of purchasing India stock in particular, you urge that such an investment would have the further advantage of relieving the market for this stock, and might have the effect of strengthening your credit in London. It may be the case, as you proceed to argue, though this a controvertible point, that a fall of exchange such as would necessitate drawing upon the Gold Reserve Fund would not have a direct effect in depressing the price of India stock, at the very time when the occasion arose for selling it; but it is at least possible that such a fall of exchange would indirectly have this effect, by giving rise in the market to anticipations, perhaps unwarranted or exaggerated ones, of probable sales of India stock held on account of the Gold Reserve. Such a result would hardly be beneficial to Indian credit. It should, moreover, not be forgotten that if some political complication occurred which simultaneously depreciated the credit of the Government of India, and the exchange value of the rupee, the sale of India stock could under such circumstances be only effected at a loss both of credit and price.

5. A Reserve Fund such as that now created should, if possible, be of such a character as to permit of its realisation, without substantial loss or detriment to Indian credit, in any emergency, either monetary or political.

6. The balance of advantage undoubtedly seems to lie in favour of confining investments on account of the Gold Reserve Fund to securities more unquestionably dissociated from the influences of fluctuations in exchange than India stocks can be said to be.

7. For the present I have given directions for the dividends on the Gold Reserve Fund to be invested, as they are received, in the National War Loan, which yields, at its current price, allowing for redemption at par in 1910, a return scarcely less than that obtainable from India 3 per Cent. Stock. Whenever it becomes desirable, from any cause, to select another security for investment on account of the Fund, due regard will be had to the considerations set forth in paragraphs 3 and 4 of your lettter.

I have, &c.,
(Signed) GEORGE HAMILTON.

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Letter from GOVERNMENT OF INDIA to the SECRETARY OF STATE, No. 121, dated 28th April 1904.

SIR,

WE have for some time past been considering the best means of guarding ourselves against a sudden depletion in the rupee portion of our Currency Reserve, such as occurred in the year 1900–1, and as appeared

possible, though not probable, in November last. The suddenness and the extent of the demands which may be made upon the rupee reserve will be evident from the statement which is appended to this letter, showing for for each month the gain or loss in the stock of rupees held in the Currency Reserve during the last four years, such gain or loss being calculated without reference to the additions which have from time to time been made by new coinage.

2. Experience has shown that we cannot obtain silver in India in sufficient quantities to meet sudden demands for coinage, and the process of sending home gold for the purchase of silver and importing the latter for coinage entails a delay of several weeks before coining operations can be begun. Such delay might be of serious consequence in the event of a sudden and strong demand on our rupee reserves, and we feel it incumbent on us to take every precaution against the risk of being unable to fulfil our rupee obligations, and the dislocation of the export trade of India which would follow from a shortage of silver coin.

3. We therefore propose to accumulate gradually a reserve of silver bullion to be held in the mints as a portion of the Currency Reserve, which will enable us to begin coining as soon as the demand for rupees makes itself felt. A stock of silver, melted, alligated, assayed, and rolled, ready for immediate coinage will form a valuable reserve in times of sudden pressure, and its existence will inspire confidence in the mercantile community in India, who have in the last few months shown themselves peculiarly sensitive to the apprehension lest our rupee reserves should not always be maintained at a safe level. If the four processes mentioned above, which are those occupying the longest time in the operation of coining, are then completed in advance, it will be possible for the mints to begin paying over newly coined rupees to the Treasury within four days of receiving the order to start work.

4. The amount of bullion which we contemplate holding permanently is three crores' worth, but we do not think it necessary to purchase this amount at once; we would leave it to you to obtain it gradually and cheaply as the state of the market permits. We think that it would be well, however, to buy £1,000,000 worth of silver as soon as the market offers favourable conditions. Part of this amount may be required for coinage, and it is possible that we may shortly have to ask you by telegram to make a further purchase for this purpose. In any case we shall feel safer when this stock is obtained and we have a nucleus for our proposed reserve.

5. It is our intention that this stock shall be kept quite apart from the ordinary silver bullion in the mints and in separate vaults; and that it shall not be made available for ordinary requirements, for coinage, but only in case of emergency. Instructions will be issued that no part of it shall ever be withdrawn for purposes of coinage without the previous express orders of Government communicated through the Comptroller-General.

6. We may add that we have not overlooked the legal aspect of the proposal. Section 13A of the Indian Paper Currency Act, 1882 (XX. of 1882, as amended by VIII. of 1900), requires us to give directions for the coinage of silver purchased from the funds of the Currency Reserve *as soon as convenient*; but the words in italics are sufficiently wide to cover the course which we contemplate. We hope, however, to make the point clear in a general revision and consolidation of the Act, which will shortly be taken up.*

We have, &c.,

(Signed) CURZON.
KITCHENER.
E. FG. LAW.
E. R. ELLES.
A. T. ARUNDEL.
DENZIL IBBETSON.
H. ERLE RICHARDS.

* Silver was bought in accordance with this despatch to provide for a bullion reserve.

*Statement showing the gain or loss in the stock of rupees held in the Currency Reserve during the last four years, without reference to the additions made by new coinage.*

| | 1900-01. | 1901-02. | 1902-03. | 1903-04. | Average. |
|---|---|---|---|---|---|
| | Gain + Loss − | Gain + Loss − | Gain + Loss − | Gain + Loss − | Gain + Loss − |
| April | −2,21,73 | −1,77,62 | −85,07 | −2,14,76 | −1,74,79 |
| May | +10,37 | +17,84 | +45,50 | −18,26 | +13,87 |
| June | +1,00,13 | +2,59,98 | +1,57,57 | +91,55 | +1,52,31 |
| July | −68,40 | +51,30 | +91,34 | +21,62 | +23,97 |
| August | −2,06,69 | −80,48 | −53,18 | −1,15,00 | −1,13,84 |
| September | −1,94,51 | −77,73 | −1,09,34 | −2,25,77 | −1,51,84 |
| October | −1,90,43 | +76,55 | −47,60 | +12,30 | −37,30 |
| November | −1,03,08 | +2,93 | −88,25 | −1,97,82 | −96,56 |
| December | −1,76,25 | −1,95,18 | −2,14,29 | −4,05,23 | −2,47,74 |
| January | −2,04,44 | −83,60 | −3,77,17 | −2,12,86 | −2,12,52 |
| February | −2,04,06 | −1,10,69 | −1,93,86 | −2,02,10 | −1,77,68 |
| March | +1,62,98 | +34,51 | −3,14 | — | +64,78 |
| Total gain or loss | −12,96,11 | −2,82,19 | −8,77,49 | −14,66,33 | −9,80,53 |
| *Add* on account of coinage of Native States in 1900-01, and withdrawals of old issues. | +3,73,69 | +1,16,58 | +8,07,25 | +4,52,10 | +4,37,40 |
| Net gain or loss | −9,22,42 | −1,65,61 | −70,24 | −10,14,23 | −5,43,13 |

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 41 Financial, dated 7th April 1905.

MY LORD,

IN my telegram dated 9th March last, while accepting your proposal that the remittance of two crores of rupees to this country which will be required for the investment on account of the Paper Currency Reserve shall be made by means of Council drawings, I added that I should address you further on the subject of remittances of gold.

2. The question of the amount of gold that can be conveniently held in the Paper Currency Reserve in India was discussed by your Excellency in your letters of 14th December 1899 (No. 421) and 6th September 1900 (No. 302). In the latter communication it was suggested that 7,000,000*l.* should be regarded as the maximum; and this proposal was provisionally accepted in Lord George Hamilton's Despatch No. 232, of 13th December 1900. The question was again considered by you last year in connection with your proposal to increase the amount invested on behalf of the Paper Currency Reserve; and in your letter of 18th August last, No. 295, you stated that in your opinion a stock of gold of the value of 9¼ crores (6,167,000*l.*) in the reserve would be ample and that a larger proportion is not at present required in India. You also stated that you have found by experience that at the beginning of the busy season the proportion of silver coin in the currency reserve should be approximately one-third of the total note circulation. As the gold held in the reserve has not fallen below 9,000,000*l.* during the last two years, and has during the whole period since March 1904 exceeded 10,000,000*l.*, I assumed, when agreeing that the invested portion of the reserve shall be increased by the substitution of sterling securities for two crores of the metallic portion, that it was your intention to remit gold to England for the purchase of the securities. In deference to the representations made in your telegram of 8th March 1905, I have agreed that the remittance shall be made by means of Council Bills. But I should be glad if you would consider whether the amount of gold held in India should not nevertheless be reduced.

3. According to the statement for the 9th March 1905, which is the latest before me, the composition of the Currency Reserve on that date was as follows :—

| | Crores. |
|---|---|
| Securities - - - - | 10 |
| Silver coin - - - - | 9·07 |
| Silver bullion - - - - | 1·88 |
| Gold - - - - - | 16·47 |
| Total - - - | 37·42 |

The amount of silver coin was considerably below the proportion of one-third mentioned above, and when an investment of two crores is made in England, and the metallic reserve in India is reduced, the reduction will presumably be effected wholly or in part by the transfer of rupees to the ordinary treasuries.

4. In view of these figures it appears to me that there would be some advantage in remitting gold to England early in the present financial year.

Having regard to the state of your balances as described in your telegram of 8th March, it would perhaps be the more convenient course that gold so remitted should in the first instance be held as a part of the Paper Currency Reserve at the Bank of England. It could be used, if a favourable opportunity occurs in the near future, for the purchase of silver in anticipation of future requirements, or, if you are unwilling at present to anticipate requirements, it could be held at the Bank so as to be immediately available for the purchase of silver whenever the need for additional coinage may arise. It is also to be remembered that the possession of a stock of gold in England, held as a portion of the Paper Currency Reserve, but capable of being transferred to the ordinary balances of the Secretary of State in Council, against a corresponding transfer of rupees from your balances to the Currency Reserve in India, affords a method (which might in certain circumstances be very useful) of speedily replenishing the balances of the Secretary of State in Council.

5. I shall be glad to receive an expression of your views on the points discussed in this Despatch.

I have, &c.,
(Signed) ST. JOHN BRODRICK.

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Letter from the GOVERNMENT of INDIA to the SECRETARY OF STATE, No. 236, dated 29th June 1905.

SIR,

We have the honour to refer to your Financial Despatch No. 41, dated the 7th April 1905, on the subject of the amount of gold held in the Paper Currency Reserve. You cite various opinions which the Government of India have expressed at different times as to the amounts of gold and silver respectively which should be held in the Reserve, and you ask us to consider whether in view of the large stock of gold now held in India, a portion of it should not be remitted to England. You also suggest that it might be convenient to hold the gold so remitted in the first instance as a part of the Paper Currency Reserve at the Bank of England, and you point out certain advantages which would attach to the possession of such a stock of gold in England.

2. In the previous discussions to which you refer concerning the amount of gold that can conveniently be held in the Reserve, our views were influenced by the sudden demands which had arisen for the provision of rupees in India, and by anxiety lest the presence of a large stock of gold should hamper us in meeting those demands. Our position in this respect has been greatly strengthened by the large increase that has taken place in

the note circulation in the last few years, and by the formation of a special ingot reserve of three crores of tolas of silver, as proposed in our Despatch No. 121, dated 28th April 1904. The position will, we think, be made still more secure if you accept the proposal put forward in our Despatch No. 143 of the 27th of April last, for the annual purchase of silver in anticipation of actual requirements.

3. The object of this proposal was to secure a sufficient supply of rupees to meet all urgent demands, and so long as this object is effected we see no cause for anxiety in the accumulation of a large stock of gold. On the contrary we consider that the balance of the uninvested portion of the Reserve which is not likely to be required for circulation as money ought to be held in gold rather than in silver, and that the possession of a large stock of the yellow metal will strengthen our credit and contribute to the stability of exchange. Subject, therefore, to the provision of sufficient rupees and reserves of silver, we would allow our stock of gold to grow indefinitely with the expansion of the note circulation until such time as it may be deemed expedient to make a further addition to the invested portion of the Reserve.

4. We do not, however, consider it in any way necessary that the whole of the gold should be held in India. As pointed out in the second paragraph of your Despatch under reply we expressed the opinion in August last that a stock of $9\frac{1}{4}$ crores in the Reserve furnishes, under present circumstances, an ample maximum for Indian purposes; and one of the objects of the recent revision of the Paper Currency Act was to facilitate the transfer of the gold portion of the Reserve between India and England. We would in this connection invite attention to the remarks made by our Honourable Financial Colleague when moving on the 11th of March last that the Report of the Select Committee on the amending Bill should be taken into consideration. The Honourable Mr. Baker then observed that "so far as gold is concerned, "the coin held in London is actually one stage nearer the point at which it "becomes effective for securing the encashment of notes than when it is in "India."

5. We are accordingly disposed to welcome your suggestion that a portion of our stock of gold should be remitted to London and held as a part of the Paper Currency Reserve at the Bank of England. To the advantages which you have enumerated as attending this measure we would add that it will enable you to make purchases of silver quietly without giving the forewarning to the market which is entailed by the present system of making separate remittances for each purchase.

6. We therefore propose to send 5,000,000*l.* (five million pounds) in gold to London to be held by you as a part of the Currency Reserve. When you draw on this fund for the purpose of purchasing of silver, we would ask you to replenish it from time to time by the sale of Council Bills, at your convenience, and to inform us on each occasion of any intended operation on the fund, so that we can adapt our arrangements accordingly. In the event of the demand for Council Bills being slack at any time, you would be able after warning us to replenish the Reserve in India, to utilise your stock of currency gold for Treasury payments. If this proposal meets with your approval we should be glad to be informed as soon as possible in order that early arrangements may be made for shipping the gold.

7. With reference to the remarks in paragraph 3 of your Despatch regarding the amount of silver coin held in the Paper Currency Reserve in March last, we would point out that the standard of one-third of the total note circulation referred to in our Despatch of the 18th of August 1904 was suggested as sufficient at the opening of the busy season, and that that season was drawing to its close on the 9th of March. We take this opportunity of explaining that the standard which we suggested last year on Sir Edward Law's advice was a rough estimate only, and that we do not at present consider that we have sufficient data or experience for laying down any arithmetical criterion. We attach more importance to the proposals stated in our Despatch of the 27th of April last for anticipating requirements than to the maintenance of any fixed proportion of rupees to the note circulation; and in any

event, we do not consider that the gross circulation, which includes notes held in the Reserve Treasuries, could in any circumstances be treated as the basis of such a criterion.

We have, &c.
(Signed) CURZON.
KITCHENER.
E. R. ELLES.
A. T. ARUNDEL.
H. E. RICHARDS.
J. P. HEWETT.
E. N. BAKER.
C. L. TUPPER.

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Despatch from SECRETARY OF STATE to GOVERNMENT OF INDIA, No. 91, Financial, dated 11th August 1905.

MY LORD,

IN your letter of the 29th of June, No. 236, you accept the suggestion made in my Despatch of 7th April, No. 41, that a portion of your stock of gold should be sent to this country to be held as a part of the Paper Currency Reserve; and you propose to make early arrangements for the shipment of 5,000,000*l*. I understand that you desire that the 1,000,000*l*. shipped on the 8th of July, as reported in your telegram of 6th July, may be regarded as a portion of this 5,000,000*l*.

2. I approve the proposal that a further 4,000,000*l*. shall be sent. It should be consigned in instalments of not more than 1,000,000*l*., and you should inform me by telegraph when each consignment is about to be made.

3. When the gold held in England is drawn upon for the purchase of silver it is possible that in some cases the most convenient arrangement for keeping the total Currency Reserve up to the required amount will be that contemplated in sections 17 and 19 of Act III. of 1905, viz., to treat the silver purchased as a portion of the reserve. The stock of gold in England can subsequently be replenished, as you propose, from the proceeds of Council Bills (if the state of the Home Treasury balances admits of this) so as to release rupees from the Currency Reserve in India. This procedure would obviate the necessity for making transfers in India from the Treasury to the Paper Currency Department at the time of the purchase of the silver, which I understand to be the course suggested in the sixth paragraph of your letter.

4. For the present, however, the silver that is being purchased in accordance with the requests contained in your telegram of the 5th April, your letter of the 27th April, and your telegram of 30th June, is being paid for from the balances of the Home Treasury, so that the whole 5,000,000*l*. of gold will be held from the time of its arrival as a part of the Paper Currency Reserve.

5. I forward a copy of a letter to the Bank of England requesting them to take the necessary measures.

6. I also forward a copy of a note by the Deputy Accountant-General at this Office, from which it will be seen that it is desirable that you should announce (in the manner that appears to you most convenient) that the shipments are to be made on behalf of the Paper Currency Reserve, and not for the purpose of replenishing the balances of the Secretary of State for India in Council.

I have, &c.,
(Signed) ST. JOHN BRODRICK.

## Enclosure No. 1.

### INDIA OFFICE to BANK OF ENGLAND.

F. 5156. India Office,
28th July 1905.

GENTLEMEN,

I AM directed to inform you that the Government of India intend to consign to this country during the present year 4,000,000*l.* in gold in addition to the 1,000,000*l.* referred to in the correspondence ending with Mr. Nairne's letter of the 7th July.

The whole 5,000,000*l.* will for the present be treated under the arrangements contemplated in the Indian Paper Currency Act, 1905 (of which a copy is enclosed for your information) as being a part of the reserve to secure the payment of currency notes issued in India.

I am to inquire whether you will be so good as to hold the gold on behalf of the Secretary of State in Council on a separate account distinct from his cash and drawing accounts.

Portions of the amount so held may from time to time be used for the purchase of silver or for other purposes; and in this event a transfer to the Secretary of State's cash account will be required, and the necessary instructions will be given by this Office.

I have, &c.
A. GODLEY.

The Governor and Company of the
Bank of England.

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## Enclosure No. 2.

### Note by the DEPUTY ACCOUNTANT-GENERAL, India Office, dated 22nd July 1905.

I have to suggest, for consideration, that in view of the magnitude of the operation it might be desirable to take some steps to acquaint the market that the gold to be shipped will not be available for the purposes of loans from the Secretary of State's balances. The Broker has recently mentioned to me on several occasions that the publication by the newspapers of the intended shipment of gold, which is usually announced by the news agencies directly the freight is arranged in India, has a distinct effect on the rates he is able to obtain for our loans. The firms on the borrowing list occasionally quote the information to him, and either decline to renew in the expectation of cheaper money and supply themselves instead from other sources with weekly or other short term loans, or else make the news the pretext for offering a lower rate of interest than would otherwise be obtained. In this case the shipments of gold will be large, and will perhaps spread over some time. I see from to-day's "Times" that a rumour as to a further shipment is already afloat.

H. W. BADOCK.

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### Telegram from VICEROY, dated 15th December 1905.

Your telegram of 14th instant. Transfers to Currency Reserve. We regard it as advisable to transfer to our Treasury Balances a further sum of Rs. 75,00,000, and shall be glad, therefore, if 500,000*l.* may be transferred to the Currency Reserve (Gold) on the 16th instant. Please also expedite as far as you can the shipment of silver that has been ordered.

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### Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 16th December 1905.

Transfer of gold to Currency Reserve. I am willing to make the transfer as requested in your telegram of yesterday at once, if this is the only possible course. But as it is undesirable just now to withdraw gold from the Bank of England Reserves, it would be better to postpone or, if possible, to avoid such transfer. Accordingly I would ask you to consider whether by treating

the gold in your Treasury Balances and the balance of the silver bullion received by you, or in transit to India, as belonging to the Currency Reserve, we might not avoid the necessity of immediately transferring gold to the Currency Reserve in England, or at any rate make the amount to be transferred smaller.

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Telegram from VICEROY, dated 19th December 1905.

Currency transfer. Your telegram 16th December. We must, in spite of the possibility of inconvenience to the Bank of England, earnestly press our request that you will transfer to your Currency Balance half-a-million of gold from your Treasury. If this is not done, your large drawings of telegraphic transfers will cause us serious embarrassment. We are coining as fast as possible the entire special ingot reserve; we have already earmarked for Currency most of the silver bullion en route; we have made as much use as possible of our Treasury gold, and have arranged for temporary loan of 70 lakhs from Gwalior.

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 19th December 1905.

Currency transfer. Your telegram of to-day. To morrow I will set aside half-a-million. In order to guide me at allotment to-morrow, please inform me of the amount of transfers you can, without my setting aside further gold, meet this week. When you reply, please keep in mind my announcement in my telegram of yesterday as to shipments of silver for this week and next week.

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No. 144, dated 26th April 1906.

SIR,

IN your telegram of the 11th January 1906 you authorised us to raise the silver ingot reserve from 300 to 600 lakhs of tolas. No steps, however, have yet been taken to give effect to this decision. The extraordinary demand for rupees during the busy season which is now expiring completely exhausted our original reserve of 300 lakhs by the 15th January last, and we have only with difficulty been able, though employing the Mints at their full capacity, to maintain a supply of coin sufficient for immediate requirements. Now that this pressure has been relaxed we desire to explain the manner in which we propose to build up an enlarged reserve, and to suggest other measures for strengthening our position.

2. As regards gold, the position already attained is undeniably strong. We have accumulated by a natural process a stock of over £12 millions in the Gold Reserve Fund, besides over £11 millions in the Currency Reserve; and in addition the paper currency investment now includes £1⅓ millions' worth of sterling securities. During seven years we have never been threatened with serious attack from this side. We are far from affirming that the point has been reached, or is in sight, when further accumulations of gold should cease. Even a relatively small depletion of our total stock of gold might excite public apprehension; and this is the more important now that it has been decided to divide our stock by holding five millions or more in your currency chest in London. At the present time we hold less than four millions of gold in India and we are assured that no material reduction in this figure would be consistent with public confidence. We are, however, satisfied that further direct additions to the Gold Reserve Fund can with advantage be temporarily suspended if such a measure would enable us to strengthen our position on a weaker side.

3. The case of silver is wholly different. From first to last our only practical difficulty has been the timely provision of rupees, and notwithstanding various improvements of method, that difficulty still remains, and as recent experience has again shown, it constitutes a real danger. When

making our forecast for the busy season of 1905–6 we found ourselves, on the 1st October last, with a balance of 13 crores of coined rupees in the Currency Reserve, in addition to the ingot reserve of 300 lakhs of tolas, and bullion already ordered or purchased sufficient to produce nearly 280 lakhs more. Assuming a demand equal to that of the corresponding months of 1904–5, we might have expected, without further purchases of silver and without drawing on the ingot reserve, to be able to maintain a minimum rupee balance of more than 11 crores up to the end of January. But to be on the safe side we indented for 750,000*l.* worth of additional silver by that date. In the actual event we had to ask you to increase your purchases of bullion during the period mentioned to £2¾* millions' worth, and we also converted into coin the whole of the ingot reserve. The fresh coinage amounted to 777 lakhs, or five crores more than had originally appeared to be required for the maintenance of a balance of 11 crores. Notwithstanding this enormous outturn our rupee balance has fallen by the end of January to 7½ crores. On the 6th January we had to send you a further request for the purchase of £2½ millions' worth of silver†; and we had to supplement our resources by obtaining a temporary loan of 70 lakhs from the Maharaja Scindia, and by purchasing Rs. 30 lakhs' worth of silver from the Russo-Chinese Bank. The depletion of our balances in India also embarrassed the Secretary of State in England, as, for example, when‡ we had to ask Mr. Brodick to increase his purchases of silver, notwithstanding the risk of disturbing the silver market, and later, when§ we had to press you to transfer gold from Treasury to Currency, though advised that the withdrawal of gold from the reserves of the Bank of England would be inopportune. During this period our Mints have been working at the highest possible pressure, and the total net addition to the rupee coinage in 1905–6 has been about 16½ crores of rupees, against 7¼ crores in 1904–5, and 13¼ crores in 1900–1 which till now marked the highest outturn recorded since the closure of the Mints. Nevertheless, while at the end of March 1905 we had 11,36 lakhs of coined rupees and 2,59 lakhs of tolas in ingot form in our Currency Reserve, the return of 22nd March 1906 showed only 11,65 lakhs of coined rupees with no ingot reserve at all.

4. It would have been futile to seek refuge from these difficulties in the curtailment of your drawings. If the sale of Council Bills is restricted, gold will be shipped and tendered for conversion into rupees after only a slightly longer interval, and that gold must ultimately be returned to England, at our cost, for the purchase of silver. The stoppage of telegraphic transfers disorganises trade and only defers the eventual demand. The adoption of such expedients can therefore only be justified by extreme and passing emergency. On the other hand it is obviously impossible that the rupee resources from which your drafts are honoured should be obtained from the actual gold on the deposit of which they were issued. The demand must always fall in the first instance on the stocks of rupees and bullion then in hand. It follows that for permanent safety these stocks must be materially strengthened; that their maintenance at a high figure must be recognised as a fundamental obligation of currency administration; and that we must accept any modifications of system which these conditions may necessitate.

5. To give effect to these conclusions we propose—

(i) to form a silver reserve of 600 instead of 300 lakhs of tolas;
(ii) to hold this bullion outside the Currency Reserve; and
(iii) to accept and act upon the principle of advance coinage by coining rupees at the rate of 150 lakhs a month throughout the coming slack season (April to September).

6. The first of these measures has already received your approval, and the only observation which the fuller explanations now given are likely to suggest is that it is not by itself sufficient to afford us the protection we require. This criticism we hope to meet by our remaining recommendations.

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* The supplementary indents were half a million to be delivered by the 31st January, and £1½ millions to be delivered by the 15th February.

† The further orders for £1 million of silver in each case, telegraphed to you on 8th February and 8th March, represent requirements subsequent to those of 1905–6.

‡ Telegram to Secretary of State, dated 19th November 1905.

§ Telegram to Secretary of State, dated 19th December 1905.

7. Our next proposal is to build up the enlarged bullion reserve entirely from profits on coinage, and to hold it as part of the Gold Reserve Fund. This method was not considered in 1904, when the amount of the Gold Reserve Fund was considerably below its present figure. The exhaustion of the original ingot reserve offers a convenient opportunity for reconsidering our procedure. In our judgment it is undesirable in principle to hold in the form of bullion any substantial portion of the metallic reserve which secures the encashment of our currency notes. The value of the metallic reserve is limited by the volume of the note circulation and the amount of the paper currency investment, and all bullion held within it must displace legal tender coin of equal value, and to that extent renders the metallic reserve less efficient. This objection could be waived when only a small amount of bullion was required, but it becomes more pressing in view of the decision to increase the ingot reserve to 600 lakhs of tolas.

8. It would of course be possible, while maintaining within the Currency Reserve an ingot reserve of 600 lakhs of tolas (representing roughly 4 crores of rupees) to raise the balance of coined rupees to any desired figure, but this could be effected only by unduly depleting our stock of gold. Thus, taking the note circulation at 42 crores, and estimating 18 crores as a suitable rupee balance with which to open the busy season, the Currency Reserve would be constituted as follows:—investment, 12 crores; ingot reserve, 4 crores; coined rupees, 18 crores; gold, 8 crores or £5⅓ millions. It is obvious that we could not supply you with the £5 millions which you require for your currency chest, and meet even the present demand for gold as a circulating medium from the remaining 333,000*l.* Moreover, nothing at all would be left in India for contingent requirements, and in the event of an incipient drain of gold we should be driven back at once upon your currency chest and the Gold Reserve Fund. We have also to remember that the expansion of your drawings and the recent decision to grant telegraphic transfers against sovereigns in transit from Australia will check importation of gold into India in the future. On every ground, and even though a somewhat lower estimate be taken of the rupee balance required, and allowance made for a gradual expansion of the note circulation, it is clear that there is no longer room within the Currency Reserve for the large stock of bullion which we are now compelled to keep.

By holding the ingot reserve elsewhere we should, however, be able, on the data given above, to keep three millions of gold in our Currency Reserve in India. We do not think it advisable to go below this figure.

9. The natural method of maintaining a reserve of bullion for coinage purposes would be to purchase the amount required from revenue, and to replenish it from the same source as required from time to time. This would, however, involve either the reduction of our balances by about £2¾ million sterling, which is quite impossible; or the raising of an equivalent amount by borrowing, with its attendant charge for interest. We are of opinion that this charge may fairly be thrown upon the Gold Reserve Fund, and that there is nothing inconsistent with the purposes of that Fund in the measure which we propose. At present, when silver is purchased for coinage, (1) we first replace by coined rupees the gold withdrawn to pay for the bullion; (2) the surplus bullion is then coined into rupees; (3) the latter are then again converted into gold, and (4) the latter is remitted to England for investment into interest-yielding securities. What we now propose is to suspend this process in the course of the second stage, *i.e.*, the surplus bullion instead of being coined, converted into gold, and invested, should be retained in a partially coined state until required for actual use. The profits on coinage which it represents will still be held apart as a part of the Gold Reserve Fund, and will eventually be converted into gold and invested, but this process will be deferred until the demand for rupees requires it. The effect no doubt is that the amount so held will not be earning interest in the meantime, but having regard to the rapid progress of our accumulation of gold in the Gold Reserve Fund in the past five years, we consider that the question of its further accretion by interest is now of less importance than the formation and maintenance of a sufficient reserve of silver bullion. Our currency system is unavoidably artificial, and the profits

arising therefrom should be primarily utilised, not in breeding interest, but in protecting it against the risks to which an artificial system is liable. At the outset the main risk apprehended was an inadequate stock of gold, hence the creation of the Gold Reserve Fund. Now the pressing danger is a temporary deficiency in our stock of rupees, which equally justifies the expansion of that Reserve Fund so as to include a silver bullion branch. Moreover, as will be observed from the next paragraph, there will be no prolonged or complete retardation of the growth of the gold reserve.

10. We propose, then, to convert our existing Gold Reserve Fund into a Gold and Silver Reserve Fund, into the silver branch of which we shall deposit in the form of silver bullion, prepared for coinage, all profits on future coinage until the full reserve of 600 lakhs of tolas has been accumulated. The precise method of working will be obvious from the following example. Taking silver at 30*d.* per ounce we can purchase with £1 million of gold about 215 lakhs of tolas of standard silver. Out of this amount 150 lakhs of tolas will be converted into the same number of rupees and these rupees will replace the gold taken from the Currency Reserve. About three lakhs will represent the Mint charge for seigniorage, and about one lakh of tolas will disappear in wastage. There will remain about 61 lakhs of tolas of bullion which will be deposited in the silver branch of the Gold and Silver Reserve Fund as the profit on coining one and a half crores of rupees. With silver at 28*d.* per ounce, the net profit on the same coinage would amount to about 76 lakhs of tolas of bullion. Thus the coinage programme of one and a half crores of rupees a month, which we are about to lay before you, will provide us with a minimum silver reserve of 3½ crores of tolas before the next busy season begins, and meanwhile the rupee balance in the Currency Reserve will have been strengthened by the addition of 9 crores. We shall of course go on to build up the full reserve of six crores of tolas as soon as further coinage produces the required profits.

11. To utilise this bullion reserve, if circumstances should require it to be drawn upon, we should coin into rupees and transfer to the Currency Reserve the amount required at the moment (say 150 lakhs), and credit the Gold and Silver Reserve Fund with the equivalent in gold (£1 million). Of this gold a sum worth about 61 lakhs of tolas of bullion (284,000*l.*), at present silver prices, would be transferred to the Gold Branch of the fund as the profit on coining 150 lakhs, and the remainder would suffice for the re-purchase of the amount of silver which had been withdrawn (150 lakhs of tolas), besides meeting the seigniorage charge and the loss by wastage. The silver reserve would thus be automatically restored to its full amount.

It will thus be seen that whenever the bullion reserve is drawn upon, and of course after it has been finally formed, all subsequent profits will be credited directly in gold as heretofore, while the accrual of interest on the existing investments will continue unchecked. Thus the only effect on the stock of gold is that a sum of about £2¾ millions (the amount required to purchase 600 lakhs of tolas) will be held in suspense in the form of silver, and will not earn interest.

12. We pass on to our third recommendation. The principle of coinage in advance of actual requirements was formulated in the despatch from Lord Curzon's Government, No. 143, dated 27th April 1905. We are of opinion that more complete effect should now be given to the conclusions there stated. We would note, in the first place, that the proper function of the bullion reserve is to provide for unforeseen demands. The normal coinage of the year should be evenly distributed, instead of being concentrated into the busy season when the bullion reserve itself may require to be converted into coin. By following a different practice in the past we have incurred a grave risk. In the last few months the Mints, as already stated, have been working at extreme pressure, and the occurrence of labour troubles such as actually took place in the Government Press at Calcutta would have led to the most serious results. In the coming year certain structural alterations have to be carried out at the Bombay Mint, and the possibility that they may interfere with the work of the busy season is an additional reason for making ample preparation beforehand. Secondly, we would point out that the limit of reliance upon a reserve of bullion is reached when the reserve becomes

so large that the time taken to coin it exceeds the time required to replace withdrawals by fresh purchases in England. Any further strengthening of our stocks can then be most advantageously effected by working up to a higher balance of coined rupees at the beginning of the busy season. Thirdly, we have to bear in mind that our bullion reserve in the Gold and Silver Reserve Fund will for some time to come be below its full intended amount, and though we could, of course, for the present, hold the balance of the six crores of tolas in the Currency Reserve, it will cause less complication and yield the same result if we raise the number of coined rupees to a higher amount than would otherwise be necessary. Advance coinage has also the advantage of spreading the demands on the silver market more evenly. And, generally, we recommend it as an obvious measure of precaution, unattended by counterbalancing risks. Experience shows that a temporary surplus of rupees will inevitably be soon absorbed, and in the meantime the excess coin remains locked up in our balances and reserves, and cannot affect prices and the course of exchange. We trust that in view of these considerations you will be prepared to accept the programme of coinage which we now lay before you, and to make purchases of silver in accordance with it.

13. The facts already stated suggest that 18 crores is by no means an excessive estimate of the number of coined rupees which we ought to have available in our Currency Reserve on the 1st October, when the busy season is about to open. The absorption of the five months October to February inclusive has averaged about Rs. 7½ crores during the last six years, while in 1905–6 it amounted to no less than 14¾ crores. It is clear, therefore, that in a year in which your Council drafts are heavy our stock of rupees, though standing at 18 crores on the 1st October, will still require to be supplemented by the continuous coinage in the cold weather months; while if they prove relatively light, we can reduce or stop the outturn of the Mints. For 1906–7 we estimate that we shall have to coin 9 crores at the rate of 1½ crores a month between the 1st April and the 30th September next to attain the 18 crore standard, while, as above pointed out, the ingot reserve will then be still below its full amount.

14. As we have already explained, during the period when profits on coinage are being credited in silver, the coinage of each 150 lakhs of rupees involves the purchase of £1 million's worth of silver. An outturn of 9 crores of coined rupees will accordingly require the supply of six millions sterling worth of bullion. Excluding the indent of the 8th March we shall have in hand or already ordered, on the 1st April, a little over 2*l.* millions' worth, the coinage of which, at the rate of 150 lakhs a month, will occupy the Mints to the end of May. Accordingly for the coinage operations of June to September we require £1 million's worth of bullion a month, timed to arrive on or before the middle of each month from May to August. We have already in pursuance of this programme requested you in our telegram of 8th March last to purchase and ship £1 million's worth in full by the 15th May and on the 7th April we asked you to send out a like amount not later than 15th June. We desire to follow this up by similar orders of £1 million each in May and June for full delivery by the 15th July and the 15th August respectively. Such further demands as we may have to make for the cold weather months will then be regulated by the actual position towards the close of the slack season, and by the progress of your Council drawings.

We have, &c.,
(Signed) MINTO.
KITCHENER.
A. T. ARUNDEL.
DENZIL IBBETSON.
H. E. RICHARDS.
E. N. BAKER.
C. H. SCOTT.
C. L. TUPPER.

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 57, dated 25th May 1906.

MY LORD,

I HAVE considered in Council your letter No. 144, dated 26th April, recommending that a portion of the Gold Reserve Fund shall be held in silver.

2. I am of opinion that there is no objection in principle to the change in the character of the fund which this proposal involves. The general object for which the fund was established was to provide, in the spirit of the recommendation made by the Indian Currency Committee of 1898, that the profit on the coinage of rupees shall not be treated as a part of the revenues of India, but shall be separately held and used for a special and well defined purpose. In 1900, when a scheme for establishing and dealing with the fund was approved by Lord George Hamilton, it was considered that the most useful purpose to which it could be devoted was to provide against the contingency of a fall in the exchange value of the rupee, and it was accordingly decided to hold it in gold or in sterling securities so that the sale of bills and telegraphic transfers on India might be reduced or suspended when the demand was inactive, a portion of the gold or securities being temporarily used, if necessary, towards meeting disbursements in this country. This object is one which must always be borne in mind; but it is equally necessary to provide that, at times when the trade demand for remittances is active, it shall be met promptly and freely; and it is equally legitimate to use the fund for this purpose, provided that it is not treated as a part of the revenues of India. Under your scheme a portion of the profits of rupee coinage would be held on behalf of the fund in silver to be used in meeting a demand for remittances in excess of the amount that could be met from your other resources, the proceeds of such excess remittances being devoted to the purchase partly of additional sterling securities for the fund and partly of silver to make good the amount withdrawn. The total of the fund would remain intact and would be increased as now by the profit on additional coinage: and the whole amount would be kept separate from your Treasury balances and the Paper Currency Reserve. I accordingly approve your proposal.

3. In the latter part of your letter you inform me that you desire to coin enough rupees during the six months from 1st April to 30th September 1906 to secure that at the latter date you may have 18 crores in your Paper Currency Reserve; you estimate that this programme will require the coinage of nine crores during the period mentioned: and you ask that silver to the value of 2,000,000*l.* may be ordered, in addition to the amounts requested in your telegrams up to and including that of 7th April. I find that on the 3rd of May you had in the Currency Reserve 1,379 lakhs of rupees, and bullion to the value of 287 lakhs, including the amount in transit. The value ordered but not yet supplied was 1,130,000*l.* (169 lakhs). Taking the price of silver at 30*d.* an ounce, the total amount of bullion in your possession, in transit, and still to be purchased on account of orders up to and including that which was given on receipt of your telegram of 7th April, was about 650 lakhs of tolas: and the disposal of this amount, according to the figures given in paragraph 10 of your letter, would be as follows:—

| | |
|---|---|
| Rupees added to Currency Reserve - - | 453 lakhs. |
| Seigniorage and wastage - - - - | 12 ,, |
| Bullion transferred to Gold Reserve Fund (lakhs of tolas) - - - - - - | 185 ,, |

Thus, if no allowance, is made for absorption of rupees through the presentation of notes for encashment up to the end of September, the rupees in the Paper Currency Reserve at that time would, apart from further purchases, exceed 18 crores, while the bullion held in the Gold Reserve Fund would amount to 185 lakhs of tolas. The figures for past years show that during the period from April to September there is sometimes an absorption of rupees and sometimes an automatic addition of rupee reserve. It is thus possible that the purchase of 2,000,000*l.* silver in addition to the

amount already ordered may be in excess of what is required in order that you may have 18 crores of coined rupees in the Paper Currency Reserve by the 30th September, and may also have in your possession 3,50,00,000 tolas of bullion, the amount mentioned in paragraph 10 of your letter. You will be in a position to judge in the course of June whether the full 2,000,000*l.* is required. Meanwhile, in accordance with the request contained in your telegram of 8th May, I have ordered silver to the value of 1,000,000*l.*, and have given instructions that delivery shall, if possible, be completed in India by 15th July. Even if this should not be practicable, the bullion that you now have, together with the weekly shipments, will be enough to enable you to proceed with coinage at the rate of 150 lakhs a month for some time beyond that date.

4. It remains to consider in what manner the funds shall be provided for purchasing this additional 1,000,000*l.* of bullion, together with the further amount suggested by you in paragraph 14 of your letter. The usual practice is to make payments of this nature in the first instance from the balances of the Home Treasury, and to replenish those balances, as far as the convenience of your Government permits, by the transfer of gold from the amount held in this country as part of the Paper Currency Reserve. It will, no doubt, be possible to arrange in the course of June and July for the transfer of considerable sums from the Paper Currency Reserve in addition to the 1,650,000*l.* mentioned in your telegrams of 10th and 18th April and 2nd May; but it occurs to me that, if the use of this procedure appears likely to involve an excessive depletion of the gold held in the currency reserve, the balance in this country can in case of need be replenished by realising a portion of the securities held on behalf of the Gold Reserve Fund. If this is done the simplest course will be to arrange that a portion of the Treasury bills shall be paid off as they mature instead of being renewed. Thereupon a transfer of a corresponding amount in rupees or silver bullion can be made to the Gold Reserve Fund in India: the net result being that an addition to the total stock of silver in your possession will have been made without affecting the stock of gold or the balances in this country or in India. It is possible, of course, that the condition of the Treasury balances during the next few months may be such as to render it unnecessary to have recourse to this method of providing for the purchase of silver; but I shall be glad to be informed by telegram whether you are in favour of its adoption if occasion arises. If you agree to the suggestion I shall inform you by telegram when a realisation of the securities is contemplated, in order that you may arrange at your convenience for the necessary transfer of silver. In any event I propose to continue as now the investment of dividends on securities held on behalf of the fund.

5. I observe that in various passages of your letter you refer to the fund as the Gold and Silver Reserve Fund, and I gather that you desire that this shall be its designation in the future. It appears to me that it would be better to adopt a name which describes either its origin or the purpose for which it is maintained; and I suggest that it should be known in future as the Gold Standard Reserve, the name suggested in Lord George Hamilton's Despatch of 13th December 1900, No. 232.

I have, &c.,
(Signed) JOHN MORLEY.

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 85 Financial, dated 20th July 1906.

MY LORD,

IN the telegraphic correspondence * noted in the margin you discuss the question raised in the fourth paragraph of my Despatch of

* From Viceroy, dated 20th June 1906. To ditto, dated 28th June 1906. From ditto, dated 4th July 1906. (Not printed).

25th May last, No. 57, whether, in order to avoid excessive withdrawals from the gold held in this country on behalf of the Paper Currency Department, it is advisable to arrange for the discharge of a portion of the Treasury Bills held on behalf of the Gold Standard Reserve, the money thus received being added to the balances of this Office to make good the depletion caused by the large purchases of silver recently made at your request, and the Gold Standard Reserve being restored to its present amount by the transfer to it of silver bullion or rupees in India of a value equal to the Treasury bills paid off.

2. You state in your telegram of 4th July that the gold belonging to the Currency Department in this country serves the primary purpose of providing funds for the purchase of silver, and that, so long as it is applied to this purpose, you see no objection to its being almost or entirely depleted. This is a view which I cannot share. The possession of a large amount of gold by the Secretary of State in Council or the Government of India as part of the Paper Currency Reserve or in the Treasury balances is of considerable advantage to India as helping to maintain confidence in the permanence of the gold standard and in the stability of the exchange value of the rupee. Since February last, the gold held by your Government and myself has decreased by 5,000,000*l.*, and the total holding now stands at little more than 7,000,000*l.* I gather from your telegram of 4th July that you would have no objection to a further reduction, bringing the total down to about 3,500,000*l.*, and that you would prefer a reduction to that figure rather than the realisation of a portion of the Treasury Bills held on account of the Gold Standard Reserve.

3. As at present advised, I think that a reduction of the total stock of gold to the figure that you have mentioned would be disadvantageous to Indian interests, and if towards the end of September it seems probable that the use of the gold in the Paper Currency Reserve as the sole source (other than the sale of Council Bills) for replenishing the balances of the Home Treasury will result in reducing the total holding of gold by the Government below 6,000,000*l.*, I contemplate presenting for payment a portion or the whole of the 800,000*l.* Treasury Bills maturing on 28th September. Though I have mentioned 6,000,000*l.* as a minimum for the present purpose, I think it desirable that the amount of gold held by the Government of India and the Secretary of State in Council should, as a rule, be considerably in excess of this figure.

4. It is, of course, to be understood that Treasury Bills will not be realised unless the condition of the Home Treasury balances renders it necessary.

I have, &c.,
(Signed) JOHN MORLEY.

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Letter from J. S. MESTON, Esq. I.C.S., to L. ABRAHAMS, Esq., Financial Secretary, dated 18th October 1906.

FINANCE DEPARTMENT. Simla, 1906.

DEAR MR. ABRAHAMS,

OUR coinage programme, which was explained in Financial Despatch No. 144, dated the 26th April last, has now been completed as far as it referred to the first half of the current year. We proposed, and the Secretary of State sanctioned the proposal, to coin 9 crores of rupees from purchased silver between April and September, with the object of securing a balance of 18 crores in our Currency Reserve on the 1st October. We anticipated that the profits on the operation would be represented by at least 3½ crores of totals of silver bullion, lodged in the newly formed silver branch of the Gold Standard Reserve.

2. During the six months, our Mints have coined approximately 9½ crores of new rupees. Close on 3½ crores of tolas of silver have been placed in the Gold Standard Reserve, and some further payments which are necesary to bring up the full ratio of Mint profits are now being made. Finally the Currency Reserve on 1st instant held over 19¼ crores of coined rupees, so that our programme has been fully worked up to.

3. It has also been fully justified by the heavy demand for rupees. Although the net absorption of rupees for the six months was only about 3¾ crores, and the Currency Reserve on the 1st instant was considerably stronger than was estimated in March, yet the issue of rupees since the busy trade season set in has been phenomenally heavy. In August and September 625 lakhs were withdrawn against 365 lakhs in 1904–5, which was the highest figure of absorption for those two months during the last six years. The jute crop has been an excellent one, and the prices have risen beyond all expectation; they were all but double those of last year at the same season.

4. There is reason to believe that the drain on the Reserve will continue. The cotton harvest promises well, and it would not be safe to anticipate a smaller trade demand for rupees during the winter months than we had to face last year. In November–February of 1905–6 the absorption was almost 12¾ crores, and it is quite possible that our issues this winter may exceed even that figure. With this prospect before us, we shall have to keep the Mints fully engaged up to Christmas, and hence our continued indents upon you for silver, as well as our purchase of about 700,000*l.* worth from the Russo-Chinese Bank in this country.

5. The great activity of trade, and the suddenness and magnitude of the demand for rupees which it forces on us, have led us to consider carefully where to turn for assistance in case of need. Something has on two recent occasions been obtained by means of temporary loans from a Native State, but this resource is uncertain and does not carry us very far. The most promising resource is the Gold Standard Reserve. The silver branch of this now amounts to over 3½ crores of tolas, stamped into blanks, ready for coinage into standard rupees within a period of four days. By the end of November we anticipate that it will have reached the neighbourhood of four crores, and with expanding coinage it should continue to increase. It now stands outside the Currency Reserve, and (of course) is quite distinct from our ordinary cash balances. It forms a most convenient and readily available resource, and we think that it would be quite legitimate to draw upon it temporarily whenever our other cash reserves were for the time being exhausted. When it was so drawn upon, the amount appropriated should be treated as a temporary loan, bearing interest at the ordinary rate of 3½ per cent., and should be replaced as soon as the state of our balances permitted.

6. To enable us to resort to this expedient in case of need, we think that the balance of silver in the Gold Standard Reserve should be coined into rupees as speedily as convenient, and that in future all balances should be held in that form, and not in the form of blanks. In paragraph 61 of the Financial Statement for 1905–6 a contrary view was expressed. But at that time the Ingot Reserve, as it was then called, was held as part of the Currency Reserve, and it was considered important to hold it in a form naturally different from that of the ordinary currency. Now that the silver branch of the Gold Standard Reserve (which has taken the place of the former Ingot Reserve) stands quite apart both from currency and also from our cash balances, the reasons for maintaining it in a different form have ceased to exist. We could no doubt draw upon it immediately by transferring it to currency in exchange for rupees and this would be done in case of necessity, and it could be coined into rupees (provided that the Mints were free) at the cost of a delay of about four days from the start. But if the amount required were considerable, as is likely, the aggregate delay in coinage might be much greater, and we should be reluctant to accept the risk involved in an exchange for rupees in currency, the stock of which, though at the moment ample, is very far from stable.

7. We therefore desire the sanction of the Secretary of State—

(1) to the coinage, as convenience permits, of the silver in the Gold Standard Reserve into rupees, which will be kept entirely separate from our ordinary balances and from the Currency Reserve exactly as at present, and

(2) to our drawing upon the stock thus made available, when circumstances may require, in the form of temporary loans bearing interest at 3½ per cent. All such transactions will be reported to you by wire as they occur.

Yours, &c.,
(Signed) JAS. MESTON.

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 135, dated 16th November 1906.

MY LORD,

I UNDERSTAND from your Financial Secretary's letter No. 5,851 A, dated 18th October 1906, that you desire to hold in the form of rupees, instead of uncoined blanks, the silver portion of the Gold Standard Reserve, and to be permitted to take temporary loans from the Reserve at 3½ per cent. interest when the necessity arises for strengthening your Treasury balances at short notice.

2. I approve the former proposal. I also agree that the silver in the Reserve may properly be used for strengthening your Treasury balances in an emergency, even when you are not able to pay into the Reserve the equivalent in gold of the amount withdrawn, and a suggestion to that effect was made in my telegram of 30th October. If at such a time the state of the Home Treasury balances does not permit of my investing on account of the Reserve a sum equivalent to the amount withdrawn in India, the best course will be to treat as a loan, in the manner proposed by you, the amount withdrawn. In that event the total assets of the Reserve will be shown in the published statements as consisting partly of securities, partly of money due from your Government, and partly, perhaps, of silver. To include a large debt from your Government as one of the assets of the Reserve is a course not free from disadvantage. I should agree to it in such circumstances as I have described above; but I am of opinion that ordinarily an investment in securities on behalf of the Reserve should be made, if the state of the Home Treasury balances admits, in order to make good amounts withdrawn in India. When investments of this nature are made in England, Treasury bills can be bought so that if, at the time of their maturity, you are prepared to restore the silver in the Gold Standard Reserve to its former amount, the Home Treasury balances can at once be replenished without the risk of loss of capital value. You should, therefore, inform me in good time whenever you contemplate a transfer of silver from the Reserve to your Treasury balances, in order that I may consider on each occasion whether to make an investment in this country in respect of the whole or a part of the withdrawal.

I have, &c.,
(Signed) JOHN MORLEY.

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 30th November 1906.

I am selling telegraphic transfers at the price of 1/4 $\frac{5}{32}$. Do you see any objection to my selling freely?

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Telegram from VICEROY, dated 4th December 1906.

Your telegram dated 30th November. You may sell telegraphic transfers aggregating Rs. 1,00,00,000 on 5th and 12th instant, on the understanding that you do not sell in each week bills and transfers amounting together to

more than Rs. 1,20,00,000. We shall be glad to have a further telegram in case you propose making heavy sales of transfers after the 12th December, as it may not be in our power to meet them.

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 5th December 1906.

Telegraphic Transfers. Your telegram of yesterday. In spite of sale of 50 lakhs to-day the demand seems likely to be strong. It seems desirable that I should sell freely, even beyond the limit which you mentioned, if necessary, in order to avoid inconvenience to trade by restricting sales, and that you should follow the course approved in my Despatch No. 135 of 16th November, and borrow from the silver portion of Gold Standard Reserve to supplement your balances. Please reply on Thursday, and, if you agree, state how much I may sell each week in Transfers up to the end of 1906, and how much in Bills.

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Telegram from VICEROY, dated 6th December 1906.

Telegraphic Transfers. Yours 5th December. Unless serious emergency arises in India, we are very unwilling to borrow from silver branch of Gold Standard Reserve. Present demand should, in our opinion, be met by sale in London of Telegraphic Transfers against Currency, the proceeds being placed in your Currency Chest.

Until our November balances are compiled on the 10th instant, we cannot supply you with the weekly estimates desired. We will telegraph on the 10th or 11th, and in the meantime we agree to your offering for sale at once the 50 lakhs of Telegraphic Transfers which we agreed might be sold on the 12th instant.

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Telegram from VICEROY, dated 7th December 1906.

Telegraphic Transfers. As extreme stringency exists in the money market here, with possibility of serious panic, we should like to make an announcement on 8th instant that the Secretary of State will, during the next three weeks, be prepared to sell transfers freely without restriction up to the amount advertised, and beyond it to such extra amount as you think will be possible. We must, if this action is taken, transfer silver from Gold Standard Reserve unless you can come to our assistance by selling against Currency. Please reply to-day whether you agree.

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Telegram to VICEROY, dated 7th December 1906.

Telegraphic Transfers. Your telegrams of 6th and 7th instant. Announcement may be made in India that Secretary of State is prepared to sell transfers freely at rates not exceeding 1*s.* $4\frac{3}{16}$*d.*—the present rate for specials. You should strengthen your balances in case of need by borrowing from the silver portion of the Gold Standard Reserve and let me know the amount of such loans. For various reasons I wish to avoid addition of gold to Currency Reserve in London. This would, for example, entail diminution of reserve of Bank of England and, by its effect on discount rates in London, would probably interfere with arrangements for renewing debentures of Guaranteed Railways maturing in December.

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Telegram from VICEROY, dated 8th December 1906.

Telegraphic Transfers. Announcement in the terms of your message dated 7th December has been made; but it is necessary to state clearly that we shall not be able to meet your drawings without limit. That is to say, we cannot meet them to an extent of more than 4 crores in December besides paying all the transfers and bills already drawn by you, even if we completely

use up the silver in the Gold Standard Reserve. Payments on this scale, which would, we are convinced, exhaust our only available reserve, are most strongly to be deprecated. We may possibly also be obliged to grant a loan to the Bank of Bengal. We therefore venture again to press you to draw against Currency. If, as is unavoidable, your total drawings must be restricted, it can make no difference to the Bank of England whether you adopt our suggestion or not, as in the latter case the Exchange Banks will be compelled to take gold from the Bank for shipment to India, involving delay and expense to trade.

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Telegram from VICEROY, dated 10th December 1906.

Telegraphic Transfers. My telegram of 8th December. A loan of Rs. 25,00,000 is being taken by the Bank of Bengal, and they will probably apply shortly for a further loan of the same amount. Money stringency continues in an acute form, and the four principal Exchange Banks at this Presidency have to-day approached us for assistance. Their request is that we should for the next three weeks advance to them Rs. 60,00,000 a week on their conjoint security, and on their promising to repay us by purchasing telegraphic transfers when their bills are discounted in London.

We are not prepared to assist the Exchange Banks by making direct advances to them; but in the very exceptional circumstances which exist we are willing to help the Presidency Banks to finance them; and this we propose to do by making advances of Rs. 40,00,000 a week for three consecutive weeks to the Bank of Bengal, requiring repayment of such advances three weeks after the dates when they are made.

Please inform us at the earliest possible date whether you agree to this proposal. It will have the effect of diminishing from 4 crores to 280 lakhs the amount of your drawings which we can meet without obliging you to draw against currency.

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 11th December 1906.

Telegraphic Transfers. Your telegrams 8th and 10th instant. We should, if possible, avoid transfer of currency to gold in London, at any rate until early in January. By then the holders of the debentures to which I referred in my telegram 7th December will have decided about renewing. If gold were transferred, the probability of refusals would be increased, and thus an inconvenient drain on my Treasury balances might be caused. The suggestion made in your telegram of 8th instant that gold might be shipped from London by Exchange Banks is very unlikely to be realised. Therefore, before I resort to drawing against Currency, loans from Gold Standard Reserve should be taken to a considerable extent. At the same time I recognise that it may ultimately be necessary for me to draw against currency. With reference to the question of helping the Exchange Banks by loans, the head offices tell me that they are prepared to supply their requirements in India by buying transfers and bills in the usual way, and that they have no knowledge of the application made by their Calcutta branches to you. This being so, it seems unnecessary for you to make special advances to the Bank of Bengal as suggested. Please keep me informed of the situation, and answer the following questions: (1) Do you wish me to buy more silver? (2) May I now assume that, if drawings against currency are not made, 400 lakhs is the limit of drawings that you can meet up to 31st December? (3) Is it the case, as I presume, that this limit covers only the bills sold on 12th December and transfers sold between 10th and 31st December, and that bills sold after 12th December, which will not be paid until January, are outside the limit?

Telegram from VICEROY, dated 15th December 1906.

Telegraphic transfers. Yours, 11th December. We have dropped the scheme of special advances to the Bank of Bengal for assistance of Exchange Banks, having heard nothing further from them. At present we do not require more silver. On 13th instant, we borrowed from Gold Standard Reserve Rs. 90,00,000 worth of silver, and are coining up the blanks now. Probably we shall need to borrow the whole amount, which now stands at about 345 lakhs of tolas. Rs. 4,00,00,000 should be regarded as the limit of your drawings up to 31st December, and the figure should be taken to include bills sold on 12th December, and transfers sold between 10th and 31st. In order, however, to keep down the number of bills which will have to be met here in early January, when our balances will be low, we should prefer that the greater portion of transfers drawn by you within the 400 lakhs limit should consist of regular sales.

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Telegram to VICEROY, dated 18th December 1906.

Your telegram, 15th December. Before receiving it I had already given an order for silver to the value of half a million. 135,000*l.* of this has been purchased. The remainder of the order can be cancelled if you wish it, but I think it would be preferable to complete it, thus beginning to make provision for repaying amount borrowed from the Gold Standard Reserve. Please telegraph at earliest convenience what are your views.

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Telegram from VICEROY, dated 18th December 1906.

My telegram, 15th December. A further loan of Rs. 1,69,00,000 in rupees and blanks is being made from Gold Standard Reserve. Are you making corresponding investments in London against these loans? Please telegraph reply.

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Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 20th December 1906.

Your telegram of the 18th instant. I am not making investments on behalf of the Gold Standard Reserve. It is proposed to treat your withdrawals entirely as loans from the reserve, to be repaid by you in India.

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Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 20th December 1906.

Purchase of silver. My telegram of 18th December. I have decided to complete the purchase of the 500,000*l.* As the silver is bought it will be added to the Currency Reserve, and I shall thus be able to sell transfers against it over and above the limit of 4 crores. What amount of transfers can you still meet from cash balances and Gold Standard Reserve independently of the 500,000*l.* silver which I am purchasing as above mentioned, (*a*) between now and 28th December, (*b*) between 28th December and 4th January? Please telegraph reply. It would be most desirable, if possible, not to transfer gold to Currency Reserve here before the 4th January.

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Telegram from VICEROY, dated 20th December 1906.

Silver. Your telegram of 18th instant. We agree that you should finish purchase of half-million sterling, but we do not anticipate that we shall want any more for the present, and we request that you will communicate with us before making any further purchase. We shall be glad if you will, so far as convenient, now invest gold in England (as proposed in your Despatch No. 135 of 16th November 1906), against the silver (1,800,000) which has been borrowed in India from the Gold Standard Reserve, letting us know from time to time how much has been invested.

Telegram from VICEROY, dated 22nd December 1906.

Telegraphic transfers. Your telegram of 20th December. It is not possible for us to meet more than 25 lakhs up to 4th January, as already intimated. It makes no difference whether this amount is drawn before 28th December or after that date.

It will almost certainly be necessary for us, owing to your drawings of 120 lakhs on the 26th December, to ask you to assist us before 11th January through your Currency Chest; but details will be telegraphed to you later on.

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Telegram from SECRETARY OF STATE to VICEROY, dated 24th December 1906.

Your telegram dated 20th December. When the order for half a million pounds worth of silver has been completed, I will refer to you before making any further purchases.

As regards loan from the Gold Standard Reserve, I recognise that, owing to my heavy drawings having reduced your balances, the necessity may eventually arise for investment in this country in order to make good the reserve, but, as indicated in my telegram of the 20th December, I prefer at present to consider your withdrawals purely as loans.

Please notify me of your further borrowings from the Gold Standard Reserve.

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Telegram from VICEROY, dated 24th December 1906.

Gold Standard Reserve. We have made a further transfer from it to Treasury of Rs. 1,10,25,000 in rupees and silver bullion, in addition to the transfers already reported to you.

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 27th December 1906.

Telegraphic transfers. As sales to-day amounted to over 90 lakhs, and as further sales will probably take place very shortly, I shall transfer 500,000*l.* to Currency Reserve on the 28th instant. (*See* your telegram of 22nd instant.)

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 1st January 1907.

In continuation of my telegram, 27th ultimo. To-morrow evening I shall transfer to Paper Currency Reserve an additional half-million sterling. Until Thursday next this information should be regarded as confidential.

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Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 9th January 1907.

Telegraphic transfers. I have to-day sold about 84 lakhs in ordinary sales of transfers, followed by 4 lakhs of specials. Let me know as early as possible to-morrow whether you wish me to transfer more gold to Currency Reserve. Will you further consider by what date a portion of the gold transferred to Currency can be released?

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Telegram from VICEROY, dated 10th January 1907.

Your telegram of yesterday. At present we shall not need transfer of more gold to Currency Reserve. As regards the release of gold from Currency Reserve we shall in a day or two telegraph our views.

Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 14th February 1907.

Refer to your telegram 24th ultimo* and Comptroller-General's 9th instant.† If you find that my drawings up to the end of 1906–7 are too large for you to meet from your Treasury balances besides repaying to the Gold Standard Reserve 380 lakhs of rupees, I think a postponement of that repayment would be preferable to a transfer of gold to Currency Reserve in England. My balances are at present earning interest at 4½ per cent., and the transfer would involve their reduction.

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Telegram from VICEROY, dated 16th February 1907.

With reference to your telegram 14th February. Despatch now under issue, and also letter from our Financial Secretary which went on 14th instant, express our views on the repayment of loans from Gold Standard Reserve. Since the present position is that supply of rupees in India is sufficient, while our and your balances combined are adequate for purposes of treasury, a continuance of the loan of silver from Gold Standard Reserve is not justifiable, nor, in our opinion, can comparatively small gain in interest secured to you thereby compensate for using the Reserve in a manner foreign to its avowed object. We trust that you will, before the 31st March, give us the help necessary to restore the Reserve as early as possible, a matter to which we attach great importance.

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No. 66, dated 21st February 1907.

SIR,

WE have had under consideration your Despatches No. 85 (Financial), dated the 20th July 1906, and No. 135 (Financial), dated the 16th November 1906; as well as the telegrams‡ recently interchanged on the subject of your drawings upon us during December 1906. In the course of the correspondence you have been unable to accept our recommendations upon two questions which have an intimate bearing upon our currency policy. We are confident that you attach the same high importance as we do to maintaining the closest continuity in that policy; and it may be well that we should fully explain to you our views upon those points where we are apprehensive of innovation.

2. The first matter to which we invite your consideration is our recent loan from the Gold Standard Reserve, from which we have had to transfer the whole of its silver branch to our treasury in order to meet your large issues of Telegraphic Transfers since the first of last month. The importance of the Gold Standard Reserve as one of the main guarantees for the stability of our currency system is now fully recognised by the commercial public. Its published accounts are subjected to scrutiny and criticism; and it is clearly incumbent on us to avoid any treatment of the reserve which might impair public confidence in its efficiency. We consider it therefore most essential to treat the reserve as a fund which may be drawn upon for the specific

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* Telegram from VICEROY, 24th January 1907.

With reference to your telegrams 15th and 18th January. We agree to your proposal to draw 42,000,000*l.* Further, if you find it convenient to draw another 1,000,000*l.* in Council Bills in two years to recoup the sums transferred to your Currency chest from your Treasury on 28th December and 2nd January, we should have no objection.

Our present forecast admits of our meeting from our Treasury balances your drawings up to a maximum of 26,500,000*l.* during 1906–07. This forecast excludes any further drawings on account of the purchase of silver from your Treasury. But if during the current year you transfer gold to your Treasury from your Currency chest, you should reduce by an equal amount your drawings in 1906–07 against our Treasury balances. If during 1906–07 you draw more than 26,500,000*l.*, it may be necessary to ask you to help us through Currency, in order to strengthen our balances.

† Telegram from COMPTROLLER GENERAL, 9th February 1907.

Cash balances in Indian Treasuries at close of last month, Rs. 12.95.00.000. Estimated balances: 28th February next, Rs. 13.75.00.000; 31st March next, Rs. 13.00.00.000. Estimate of Council Bills payable, including telegraphic transfers against gold in transit to England: February, 500,000*l.*; March, 300,000*l.* Estimate assumes repayment India 380,000*l.* Gold Standard Reserve, and purchase 1,000,000*l.* silver February, March, from Home Treasury branch.

‡ Beginning with your telegram dated 30th November 1906, and ending with your telegram dated 1st January 1907.

purposes for which it was established, and for no others. It would be in full accord with the declared objects of the reserve that you should draw on its gold branch to support your treasury in the event of any material fall in exchange; or that we should draw on its silver branch when threatened by a shortage in our stock of rupees in India. In the former event we should recoup the reserve by paying silver into it in India, pending a suitable opportunity for an equivalent remittance of gold to England. The procedure to be observed in the latter contingency was explained in our Despatch No. 144, dated the 26th April 1906; and we desire to adhere in their entirety to the principles there laid down. To employ the reserve, however, for any other purpose than those indicated above is, in our opinion, to be deprecated as a variation from our currency policy which may seriously weaken it and would certainly be liable to general misconstruction.

We have not overlooked the fact that, in October last, we asked your consent to borrow from the Gold Standard Reserve in case of emergency. We consider that, under certain conditions, it would be permissible to take a loan from the reserve, just as we might do from a Native State. But we entirely accept your views of the disadvantages of such action. Moreover, we see equally strong objections to taking a loan, as you have suggested,* against an investment on behalf of the reserve in England; for an arrangement of this nature would imply that you held spare funds in your home treasury, with which you could assist us either directly, or by a remittance through Currency, or by the purchase of silver for shipment to us. When a sterling investment is made in the Gold Standard Reserve against a corresponding withdrawal from its silver branch, the fact indicates that circumstances have arisen which justify us, not in taking a temporary loan from the silver branch, but in using it outright, leaving it to be built up again in the usual way from the profits of new coinage.

3. Holding these views, we cannot but regret the necessity for utilising the whole of the silver in the Gold Standard Reserve during last December. The occasion was not one for calling up the reserve in defence of our currency stock of silver. We were suffering at the time from no shortage of rupees, as our currency reserve had close on 17 crores at the beginning of December and would not have fallen below 13½ crores, even if it had received no assistance from the Gold Standard Reserve, by the end of the month. We had thus an ample supply to meet all requirements for trade remittances, and no occasion for using the silver outright had therefore arisen. Nor was it an occasion for borrowing from the reserve. In our judgment, that course is, as a rule, only justifiable when we are confronted with a shortage of rupees, which is of a strictly temporary character, likely to be made good within a moderate time without resorting to new coinage. These conditions did not obtain on the present occasion. It is true that our treasury balances were low; but our resources as a whole were well over the margin of safety, and the position contained no element of crisis such as would ordinarily have forced us to seek for a loan. The compulsion arose from the tightness of money in the London market, and from your apprehension of difficulty in renewing the guaranteed railway debentures which matured during the month. These considerations apart, it would apparently have been within your power to assist our treasury balances by transferring gold to your currency chest,† or to relieve the pressure upon them by drawing upon our Currency Reserve. We recognise the difficulties of the position, which were aggravated by an abnormally keen competition for money in India happening to coincide with great stringency in the London market. But, on the other hand, we would urge the grave disadvantages of any action which would interfere with the development or shake the credit of our currency system.

4. The second question which we would ask you to reconsider concerns the proper use and functions of the gold which you hold in London on behalf of our Paper Currency Department. In your Despatch of the 20th July 1906, you demurred to our view that your currency chest might be depleted without scruple, so long as its contents were employed in the purchase of silver. You considered that a substantial holding of gold in the treasury balances and

* Despatch No. 135 (Financial), dated the 16th November 1906, page 146.

† Under section 13 of the Indian Paper Currency Act, 1905.

currency reserve helps to maintain confidence in the Gold Standard and the stability of exchange. And you were prepared, rather than allow our total stock of liquid gold to fall below 6,000,000*l.*, to refrain from renewing some of the short term investments of the Gold Standard Reserve, and to place their proceeds in your treasury. The necessity for such a step fortunately did not arise; and the conditions of the money market subsequently disposed you to diminish, if possible, rather than increase, our stock of ear-marked gold in England.

5. The purpose for which a currency chest was opened in London was described in Mr. Brodrick's Despatch No. 41 (Financial), dated 7th April 1905. The gold was to be held at the Bank of England "so as to be imme-" diately available for the purchase of silver whenever the need for additional " coinage may arise." Your predecessor added that another advantage of storing the gold in England would be the possibility of using it to replenish the balances of the Home treasury against an equivalent transfer in India of rupees from our Treasury to the Currency Reserve. The latter function of the ear-marked gold was clearly meant to be subsidiary to its use, when required, for the prompt purchase of silver. Experience has justified this view; you have not yet been compelled to supplement your balances by currency gold whereas we have had to send you constant and urgent indents for silver to meet the heavy demand for rupees in India. The emergency for which the currency chest was created continues to recur. The great activity in trade, and the hoarding of rupees which always accompanies general prosperity in this country, make it imperative that we should be able to effect large purchases of silver at short notice. The currency chest in London, which can be replenished as the State of the Treasury balances permits, would enable us to carry out those purchases without any delay or difficulty in providing the gold to pay for them. But if, at times when exchange is firm, we are debarred from using it for this purpose, it ceases, in our opinion, to perform the chief function for which it was established.

6. We readily accept your view that a large stock of gold in London has a valuable influence in steadying exchange. It is precisely with this object that the funds of the Gold Standard Reserve are invested in England in the most easily convertible forms of gold securities. We have frequently been pressed to hold a portion of the reserve in liquid gold; and this is an arrangement which may ultimately be feasible, though we are not convinced of the necessity for it under ordinary conditions, and we prefer, while the reserve is being built up, to let it earn all the interest it can. But, whether it is held in gold securities or in a liquid form, the Gold Standard Reserve is our first line of defence against a fall in exchange. So long as it is adequately maintained, the exact amount of gold in your currency chest has always seemed to us to be a matter of relatively minor importance. The public know that the currency gold in London is ear-marked for a particular purpose; that it is part of a fund reserved by law to ensure the convertibility of our note issues; and consequently that it is liable to considerable fluctuations. The Gold Standard Reserve, on the other hand, exists solely for the purpose of maintaining exchange, and is universally identified with that part of our currency policy. We should especially regret any decision to realise the securities of the Gold Standard Reserve in order to recoup your Treasury balances for the purchase of silver. In our opinion, a withdrawal of gold from the Gold Standard Reserve for this purpose would have a far worse effect on the public mind than a reduction in your stock of currency gold. The purchase of silver is a legitimate function of your currency chest, but it is entirely foreign to the objects of the Gold Standard Reserve.

7. On all these grounds, therefore, we trust that you will be able to agree with us that the currency gold in London may be freely drawn upon for the purchase of silver when we require it, being recouped, whenever convenient, from the proceeds of extra Council Bills. We shall probably need considerable supplies of silver between now and next September. But we need not remind you of the strength of our gold position. You hold 6 millions for us in your currency chest. We have nearly 5 millions in gold in India; and though this amount will now diminish through your intereeption of gold in transit to us, it will rapidly grow again when you cease your purchases from Australia. Finally, the investments of the Gold Standard Reserve in

England have risen to about 12½ millions. Their growth has been temporarily arrested by the building up of the silver branch of the reserve; but we expect that branch to reach its limit of 6 crores by the end of the current financial year, after which all further profits on our rupee coinage will go to increase the volume of the gold investments,

We have, &c.,
(Signed) KITCHENER.
DENZIL IBBETSON.
H. E. RICHARDS.
E. N. BAKER.
H. ADAMSON.
J. F. FINLAY.

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 62, dated 26th April 1907.

MY LORD,

I HAVE considered in Council your letter of 21st February 1907, No. 66, explaining your views on certain matters relating to the Gold Standard Reserve and the Paper Currency Reserve.

2. You express your regret at the decision conveyed in my telegrams of 5th and 7th December 1906, that a part of the additional funds required by you in the course of the last busy season, to enable you to meet bills and telegraphic transfers, should be provided by a temporary loan from the silver portion of the Gold Standard Reserve. You would have preferred that I should provide for the necessary addition to your Treasury balances by transferring gold in London to the Currency Reserve, thus enabling rupees to be taken from the Indian portion of that reserve.

3. Before dealing in detail with your objections to the course actually pursued, I wish to remind you of the circumstances in which it was decided to adopt it in December last. The London money market was at that time suffering from severe stringency, and it was a matter of direct and immediate importance to India that this should not be increased, since guaranteed debenture bonds amounting to 1,795,100*l.* were to fall due between 31st December 1906 and 18th February 1907, of which it was very desirable that 1,374,600*l.* should be renewed. The chance of the renewals being effected on favourable terms depended on the state of the money market, and would have been prejudiced if the market had been disturbed by a transfer of gold from the reserve of the Bank of England to the Paper Currency Reserve. The advantage of avoiding such a transfer was therefore considerable; and it appeared to me that the only counterbalancing disadvantage was that mentioned in my Despatch No. 135, of 16th November 1906, viz., that in the published accounts of the Reserve its assets would for a time be shown as consisting partly of a debt due from your Government. Neither your resources nor the conditions affecting Indian trade could in any way be unfavourably affected. After careful consideration, I came to the conclusion that the advantage of taking a loan was far more important than the one disadvantage.

4. You now submit that the course pursued was open to objection on various grounds other than the one which I have mentioned.

5. One ground of objection is that to take a loan was at variance with the objects for which the Gold Standard Reserve was established, and involved a departure from the procedure mentioned in your Letter of 26th April 1906, No. 144. These statements are, of course, correct; but they take no account of the fact that, since the establishment of the Reserve in 1901, it has been decided, in the light of experience, to make important modifications in the purposes for which it is to be used and (as a necessary consequence) in the procedure to be followed. The original object of the Reserve was to provide for a reduction, temporary or permanent, of the amount of rupee currency in circulation when this should be required to prevent a fall in exchange. The first change was made when it was decided last year, on the recommendation of the Government of India and with my complete concurrence, as expressed in my Despatch No. 57 of 25th May 1906, to hold a portion of the fund in

silver, to be used for an entirely different purpose, viz., for rapidly increasing the rupee circulation at times of trade activity. It was then intended that the Reserve, whenever a withdrawal took place from the silver portion, should be simultaneously replenished by the transfer of gold from the Paper Currency Reserve, and the procedure that was contemplated (as described in your Letter of 26th April 1906) was in accordance with this intention. A second change was made when it was decided in my Despatch of 16th November 1906, No. 135, in accordance with a recommendation made by you, that in case of need a loan should be taken from the silver portion. This necessarily involved a modification of the procedure mentioned in your Letter of 26th April 1906. I fully recognised this fact at the time, and I assumed that it was also recognised by Your Excellency's Government. These successive alterations were made after the most careful consideration, and, in my opinion, were very valuable improvements. It seems to me that no valid objection to taking advantage of them can be founded on the fact that this cannot be done without a departure from what was contemplated before their introduction.

6. The second ground of objection to the course which I decided to adopt is that it is a variation from your currency policy "which may seriously "weaken it, and would certainly be liable to general misconstruction." I should regret doing anything likely to create apprehensions in the public mind regarding the stability of the currency system; but it appears to me that, if they exist in the present instance, they are without justification. I could indeed understand that the decision arrived at in May 1906 to hold a portion of the Gold Standard Reserve in silver might be represented as affecting the stability of the currency system, since one result of it was the temporary suspension of the accumulation of the sterling fund which is kept up for the support of exchange. But that decision having once been arrived at and carried into effect, I am unable, after the most careful consideration, to understand how the stability of the currency can be regarded as having been threatened by the further decision to use the silver portion of the reserve, at a time of great demand for rupees, in a manner which left absolutely unaffected the existing safeguards against a fall in exchange.

7. I understand that your practical recommendation for the future is that loans shall not be taken from the Gold Standard Reserve except at a time when the Home Treasury balances are so low that it is impossible for me to transfer gold to the Currency Reserve in this country. I shall, of course, bear your wishes in mind on any occasion when the method of replenishing your balances has to be decided; but I am unable to accept the suggested restriction as one which should invariably be observed. I am of opinion that the choice between "earmarking" gold and borrowing from the Gold Standard Reserve must in each case depend on the circumstances of the time.

8. On the other matters dealt with in your letter I am substantially in agreement with you.

9. In paragraph 2 you express your objection to a suggestion made in my Despatch No. 135, of 16th November 1906, viz., that, when silver is borrowed from the Gold Standard Reserve, sterling securities should ordinarily be purchased in its place. Your objection is largely based on your views as to the circumstances in which a loan from the Reserve is justifiable; but, in spite of my inability to accept those views, I am willing to agree that, in the event contemplated, no investment shall be made, and the transaction shall be treated as a loan pure and simple, to be repaid from your balances when they have been replenished by the purchase of silver or otherwise.

10. In paragraph 7 you urge that the gold held in the Currency Reserve in this country may be freely used for the purchase of silver when required. I accept this view, subject to the qualification that it is ordinarily desirable that the combined stock of gold held in England and India (and in this connection the distinction between the two portions is of small importance) shall not be allowed to fall unduly low. The remarks on this subject in my Despatch No. 85, of 20th July 1906, were made in reply to your suggestion that the total, which had fallen in five months from about 12,000,000*l.* to about 7,000,000*l.*, could without disadvantage be allowed to fall as low as

3,500,000*l*. Holding the opinion, which you evidently share, that it is necessary to have regard to the effect on the public mind of your currency transactions, I thought that it was desirable to avoid so large a decrease in a comparatively short period, and that the realisation of a portion of the securities of the Gold Standard Reserve would be the less of two evils There must always be room for difference of opinion when a choice has to be made between alternatives of this kind; and it is satisfactory that the building up of the silver portion of the Gold Standard Reserve has considerably reduced the probability of the recurrence of a situation necessitating such a choice.

I have, &c.,
(Signed). JOHN MORLEY.

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INTERIM REPORT of the COMMITTEE on INDIAN RAILWAY FINANCE, &c.
(Submitted in June 1907.)

The Committee have considered the letter from the Government of India, No. 28 (Railway), dated 25th April 1907, proposing the formation of a central reserve of wagons for use on railways in India, which has been referred to them by the Secretary of State for India. In view of the urgency attached to the matter by the Government of India, the Committee have judged it advisable to deal with the letter without delay, and they accordingly submit the following recommendations.

The proposal of the Government of India, briefly stated, is that, in addition to the expenditure provided for in the Railway Programme, a sum of 3,000,000*l*. should be spent within the next two or three years in the purchase by the State of 12,000 wagons, to be held as a reserve from which the loan of vehicles to any railway requiring additional stock could be made. The reasons given for this proposal are that it has been demonstrated that the Indian railways are at present unable to carry traffic which is offered, that it will be some time before each railway can be fully equipped to meet normal demands, and that it is moreover desirable to provide against extraordinary demands for wagons, which may always be expected to arise at different seasons.

Enquiries already made by the Committee confirm the conclusion of the Government of India that the existing equipment of Indian railways is inadequate, and they consider it essential that efforts should be made to improve the position as rapidly as possible. But the following reasons prevent them from recommending the adoption of the particular method proposed by the Government of India: (1) A central reserve of wagons would be a new departure; and it is therefore probable that before it could be established and fully utilised, delay would occur owing to the necessity for settling important questions requiring mature deliberation; (2) the Committee have reason to believe that the Railway Companies would prefer that any extra funds which can be made available for railway purposes this year should be allotted to the railway administrations in accordance with their requirements. The Committee are of opinion that the latter course is the more advantageous and recommend its adoption.

With regard to the method by which it may be possible to obtain additional funds beyond those already arranged for under the Railway Programme, it is evident, from figures which have been placed at the disposal of the Committee by the Financial Department of the India Office, that it will not be safe to anticipate that the sum which can be borrowed by the Secretary of State for India in this country during the present year is capable of being increased beyond the amount entered in the Budget estimate, viz., 7,675,000*l*. (leaving out of account the liability in respect of debentures for 2,500,000*l*. maturing during the year). But they have had under consideration the question of the advisability of using a portion of the current year's profit on the coinage of silver for capital expenditure on Indian railways instead of investing it in British Government securities.

The object of the Gold Standard Reserve, to which the profit on coinage is credited, is to enable the Government of India and the Secretary of State to meet their sterling obligations in the event of a falling off in the demand for Council Bills. This Reserve at the present time consists of sterling

securities of the market value of 12,310,629*l.*, together with a sum of six crores of rupees (equivalent to 4,000,000*l.*) which is held in silver in India to meet any sudden demand for coinage. In addition to the Gold Standard Reserve, there is a large amount of gold (11,066,000*l.*, of which 7,705,000*l.* is held in London and 3,361,000*l.* in India), in the Paper Currency Reserve, which could be applied to the same object. Apart, therefore, from the six crores of rupees in silver, there is at the present moment a fund of upwards of 23,000,000*l.* in sterling securities and gold bullion which could be drawn upon in case of necessity.

The interest received on investments on account of the Gold Standard Reserve between the present time and the 5th January 1908 will, it is estimated, be about 270,000*l.*, while the profit on the coinage of silver up to the 31st December next is provisionally estimated at 1,850,000*l.* The addition to the Reserve by the beginning of next year would, therefore, in ordinary course amount to considerably over 2,000,000*l.*, bringing up the total amount of gold and sterling securities held in the Gold Standard Reserve and the Paper Currency Reserve to more than 25,000,000*l.*

Having regard to the satisfactory position which the gold reserves have now attained, as shown by the foregoing figures, the Committee are of opinion that it could not be regarded as imprudent to invest 1,000,000*l.* of the profit on coinage for the present financial year in Indian railways, and they therefore recommend this course to the Secretary of State.

It is a matter of urgency that any additional funds which are available should be immediately placed at the disposal of the railways, and the Committee would therefore suggest that a telegram be sent to the Government of India, in reply to their letter of the 25th April last, informing them that the consideration of the question of the creation of a wagon reserve is postponed for the present, but that a further sum of 1,000,000*l.* may be at once allotted to the several railways in such proportions as the Government may deem desirable, either for the provision of additional rolling stock or for the improvement of open lines to enable them to deal with traffic more expeditiously, thus bringing the total allotment for 1907–8 up to 10,000,000*l.* sterling. If this is done, the Government of India should be informed that the additional million which it is decided to allot will be supplied from the profit on coinage during the current year, and will be treated in account as an investment for the Gold Standard Reserve.

(Signed) J. L. MACKAY (*Chairman*).
W. R. LAWRENCE.
F. O. SCHUSTER.
D. M. BARBOUR.
L. ABRAHAMS.

6th June 1907.

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Telegram from SECRETARY OF STATE to VICEROY, Commerce and Industry Department, dated 11th June 1907.

Your Railway letter No. 28, of 25th April 1907. I referred your proposals to the Railway Committee mentioned in my Despatch No. 57, Railway, of 24th May last. They recommend that the sanctioned capital outlay for 1907–08 be increased by an additional 1,000,000*l.* to be spent on rolling stock and open line improvements, subject to the following conditions:—

(1) That this extra grant is not used to form a reserve of wagons, but allotted to railway administrations, as this course will enable stock to be brought more expeditiously into use, and will be more acceptable to companies.

(2) That the money is provided from the profit on coinage in 1907–08, the amount being shown among other balances of the Gold Standard Reserve in Account No. 91A of the Finance and Revenue Accounts.

The reasons for the second condition are, firstly, that the amount still to be borrowed in 1907–08 for expenditure already sanctioned exceeds 4,000,000*l.*, and it must be regarded as impracticable to borrow more; and, secondly, that no risk to the position of exchange is involved by the proposal

in view of the present amount of the Gold Standard Reserve, and of the additions estimated to be made to it this year, see your telegram of 18th May last, and of the large sum held in gold in the Paper Currency Reserve.

If you agree generally with these recommendations, which I am in favour of accepting, you may at once proceed with the allotment of the money to the Railway Administrations.

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Telegram from VICEROY, dated 24th June 1907.

Please refer to you telegram dated the 11th June 1907, regarding rolling-stock. Respecting the Committee's first condition, we greatly prefer the formation of a central reserve of wagons to the distribution among railway administrations of an extra grant. Reference is invited to remarks on rolling-stock in Financial Statement, 1906–07, Appendix 3, in addition to reasons explained in our Despatch, dated 25th April, paragraph 6. To meet seasonal demands for rolling-stock lasting a short time, the creation of a wagon reserve will be more efficacious. Seasonal shortages will not be permanently provided against by the distribution of additional rolling-stock, whereas a permanent solution will be found in a central reserve worked, as we intended, not as a part of current requirements, but as a reserve. Reconsideration of this first condition is very strongly urged, but if you still adhere to it, we will agree.

Great importance is attached by us to the supply during the current year of extra rolling-stock to the amount of 1,000,000*l*. Should distribution be decided upon, please consider whether the more expeditious method would not be to carry out Indent No. 14, Railway, enclosed with Railway letter of 25th April, No. 95, and to distribute to railways on completion, rather than to allot grant to administrations and leave them to arrange by "repeat" orders and otherwise for the supply of rolling-stock required. We wish you to follow the course you consider quickest in this respect. On receipt of your reply, distribution of extra grant among railway administrations will, if necessary, be telegraphed.

Regarding the second condition, we expect to address you soon proposing that the Gold Standard Reserve investment from profits on coinage shall be discontinued on these investments reaching 20,000,000*l*. We are of opinion that even if we could agree to your proposal, it will be necessary, having regard to the public criticism on formation of silver branch of the Gold Standard Reserve, to inform the public of the decision and to give the reasons for it. We are, however, wholly opposed, until the 20,000,000*l*. figure is reached, to any diversion of the profits on coinage from their essential object, namely, the building up of the Gold Standard Reserve until it is sufficiently large to be a reasonably certain protection against the danger of a fall in exchange. Security of our currency policy is, in our emphatic opinion, of paramount consideration and should on no account be sacrificed even to the present necessity of the railway programme. Increase of sterling borrowings is, you say, impracticable beyond the four millions which you still require this year. We would, however, observe that if an issue of another million in India Bills or Stock were made, and the price of issue thereby lowered by three points, the total loss would only amount to 30,000*l*., and that this amount would be exceeded on a total Home remittance of 20,000,000*l*. if rate of exchange fell by $\frac{1}{16}d$. In the event of the balance of trade becoming endangered and an ample margin in the Gold Standard Reserve not available to fall back upon, the rate of exchange might easily fall by much more than $\frac{1}{16}d$.

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Telegram from SECRETARY OF STATE to VICEROY, 2nd July 1907.

Please refer to your telegram regarding rolling-stock dated the 24th of June. I have decided, after considering the matter most carefully (1) regarding the distribution of rolling-stock, to adhere to the first condition as contained in my telegram to you dated 11th June, and (2) that unless funds are provided from the Gold Standard Reserve, no extra expenditure can be incurred. It is impracticable to continue further borrowing, not in view of an increased rate of interest or discount, which may be disregarded as of no

importance, but for the reasons which I give below. Investors who purchased India Stock in May last would be injured by a second issue in the current financial year, and such issue would prejudice our opportunity of borrowing sufficient for our needs in 1908–09 and in the following years. In view of the condition of the London investment market and its consequence in compelling His Majesty's Government to postpone certain loans which they had in contemplation, it is practically certain, as regards India Bills, that a considerable amount of these will have to be issued in order to make up the deficiency which has arisen in consequence of the impossibility of issuing Railway bonds or debenture stocks to the amount which had been arranged for in the Budget. To increase the amount of these bills that will have to be issued would be imprudent in the highest degree.

In regard to the limit of borrowing in London, I must ask you to accept my views, just as I accept yours regarding the amount of borrowing to be undertaken in India. Unless further capital, as to the urgency for which I agree with Your Excellency, can be provided from the Gold Standard Reserve, additional expenditure must be abandoned.

The danger, which you allege, of a fall in the rate of exchange I regard as illusory, having regard to the present conditions of trade, the amount of securities in the Gold Standard Reserve, and of gold in the Currency Reserve. Strength will be afforded to the exchange position by the increased facilities for the carriage of productions. The maintenance of the value of the rupee is secured by the ample provision already existing; but, until the amount of 20,000,000*l.* in sterling securities is reached, I am quite willing to continue adding one-half of the profits on coinage, together with all the interest on the investments now existing, to the Gold Standard Reserve.

Having regard to the considerations given above, I shall take the necessary steps to comply with the Iudent of the 25th April 1907, No. 14, Railway, and shall distribute in accordance with your recommendations.

Early steps will be taken to announce this decision.

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QUESTION IN PARLIAMENT, 9th July 1907.

Sir EDWARD SASSOON (Hythe): I beg to ask the Secretary of State for India what is the present position of the Gold Standard Reserve; and whether he intends to continue indefinitely the practice of adding to it the whole of the profit on coinage.

Mr. MORLEY: Up to 31st March 1907, 12,518,513*l.* derived from the profits on coinage and from interest had been invested in British Government securities on behalf of the Gold Standard Reserve and 4,000,000*l.* was held in rupees in India. The profit to be realised in 1907–08 will, it is anticipated, be considerable, though the exact sum cannot of course be stated at present. In view of the amount of the reserve and of the large stock of gold (about 10,500,000*l.*) held by the Government of India and the Secretary of State in Council in the Paper Currency Department and elsewhere, I have decided that the present practice of adding to the Reserve the whole of the profit on coinage and of the interest on securities already purchased may be modified. From the present year and until the Reserve reaches 20,000,000*l.* one-half of the profit on coinage together with the interest on securities will be added to the Reserve, and the other half of the profit will be used to supplement the funds available for capital expenditure on Indian railways. This decision, which is based on a recommendation made by the Departmental Committee on Indian Railways, has enabled me to sanction an addition of 1,000,000*l.* to the programme of capital expenditure for the present year. The additional expenditure will be devoted to improving the equipment of open lines.

Sir EDWARD SASSOON: What amount will be available for increased railway expenditure?

Mr. MORLEY: I cannot say off-hand.

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No. 296, dated 8th August 1907.

SIR,

We have the honour to refer to the telegraphic correspondence* ending with your telegram of the 2nd July on the subject of the purchase of additional rolling-stock, and also to your announcement in the House of Commons on the 9th July regarding the employment of part of our coinage profits for expenditure on Railways.

2. As intimated in our telegram of the 24th June, we intended to address you, reviewing the present position of the Gold Standard Reserve and the attitude of the commercial public in regard to it and submitting for your consideration the following definite proposals:—

(1) That the investments of the Gold Standard Reserve should continue as at present until they reach a total of 20,000,000*l.*;
(2) That, when that figure is reached, the investment of profits on new coinage should cease, but the investment of the interest on the securities previously purchased should continue until the total investment reaches 27,000,000*l.*;
(3) That, when that figure is reached, the question of further accumulation should be specially considered;
(4) That the funds made available by stopping the investment of the profits as above, should be used in reduction of our borrowings for railway and irrigation expenditure.

3. From the report of your announcement in Parliament, we understand that on the advice of the Committee which was recently appointed to consider the question of Railway finance, you have decided on a different course. We do not therefore propose to trouble you with the reasons which led us to the conclusions outlined above. We accept your decision, although some of us entertain doubts as to its expediency, and although we should all have preferred if it had been possible to give the commercial community in India an opportunity of stating their opinion regarding the diversion of coinage profits before final orders were issued.

4. We forward for your information a copy of a letter which we have received from the Chamber of Commerce, Bombay, regarding the policy on which you have determined, and of the reply which we have sent to that body.

We have &c.,
(Signed) MINTO.
KITCHENER.
H. E. RICHARDS.
E. N. BAKER.
C. H. SCOTT.
H. ADAMSON.
J. F. FINLAY.
J. O. MILLER.

Enclosure No. 1.

No. 587, dated 11th July 1907.

From J. B. Leslie-Rogers, Esq., Secretary, Bombay Chamber of Commerce, to the Secretary to the Government of India, Finance Department.

I am instructed by my Committee to address you with reference to information that has been published that the Railway Board is to receive another million sterling this year for the purchase of Rolling Stock, and that this amount will be taken from the profits on coinage accruing this year which otherwise would have gone to swell the investments in the Gold Standard Reserve.

2. Although a further increase of Rolling Stock is most necessary, my Committee cannot but view with very grave apprehension the decision just arrived at that, as stated on the 9th instant in the House of Commons by the

* Your telegram dated the 11th June 1907. Our telegram dated the 24th June 1907. Your telegram dated the 2nd July 1907 (pages 157–8).

Right Honourable the Secretary of State for India, the funds for this purpose are to be provided from the profits on coinage. These, it has always been understood, as recommended by the Indian Currency Commission of 1898, were not to be diverted to any channel other than that of the Gold Standard Reserve, which was formed to guarantee our silver rupees on the basis of an exchange of 1*s.* 4*d.*; and although a fairly large sum has been accumulated and invested for this purpose, my Committee do not consider that a point has yet been reached which guarantees absolute safety as regards the currency, or which would warrant even a temporary cessation of payments to the fund from the only source from which it can be augmented.

The question of diverting payments from the Gold Standard Reserve is not one, it appears to my Committee, that should be considered merely from the point of view of the position at the moment being satisfactory and of there being no likelihood for the present of the fund already invested being brought into use. It is, they hold, a fund which guarantees the determination of the Indian Government to maintain the gold value of the Rupee, and this being so it seems to my Committee as only too likely that any deviation from this purpose, and the uncertainty that will always afterwards exist even after the Reserve has reached 25,000,000*l.* that a further large sum may be allocated at any time, and locked up in investments which are not liquid, will cause the public, not only in this country but in England also, to regard the currency policy of Government as on too unstable a basis; and if this should be so, confidence in the future may be shaken and the loss of credit to the country would become a very serious matter. My Committee do not propose at this juncture to deal with the possibility of further allocations from this fund after a total of 25,000,000*l.* has been reached for any object which may appear to Government of an urgent nature. They merely desire to point out that the Gold Standard Reserve Fund was formed for a definite object, and that until the invested portion of this Reserve has reached a very much larger figure there should in their opinion be no attempt on the part of Government to divert funds for other purposes, however urgent such purposes may be.

Enclosure No. 2.

No. 4927-A., dated 8th August 1907.

From J. S. Meston, Esq., I.C.S., Secretary to the Government of India, in the Finance Department, to the Secretary to the Bombay Chamber of Commerce.

I am directed by the Governor-General in Council to reply to your letter of 11th July, in which the Committee of the Bombay Chamber of Commerce criticise the decision of the Government to take from the profits on coinage accruing this year the additional million sterling which it is proposed to spend on the purchase of rolling stock. The exact decision was that, from the beginning of the current financial year and until the sterling investments of the Gold Standard Reserve reach a total of 20,000,000*l.*, the profits on coinage, which have hitherto all been invested in sterling securities, shall be so invested in the future to the extent of one-half only, the other half being appropriated for railway capital expenditure, and that the whole of the interest on the investments will continue to be invested in sterling securities as hitherto.

2. The Gold Standard Reserve was constituted in order to provide a fund to be used in time of need to prevent exchange from falling below 1*s.* 4*d.*, per rupee: before its formation other measures having the same object, such as the accumulation of a stock of gold, had been adopted, and the establishment of the Gold Standard Reserve was in addition to those previous measures, and not in substitution for any of them. It was decided that all the profits on coinage should be invested in sterling securities, to be sold out in the event of it being necessary to combat a tendency towards a fall in exchange. Hitherto no specific limit has been fixed for the amounts of the sterling investments; but it has for some time past been recognised that the investments ought not to continue indefinitely, and that they should cease

when the amount shall be considered, in combination with the effect of the other measnres adopted for the support of exchange, to be sufficient to secure with all reasonable safety the object for which the fund was created.

3. The Government of India gather from your letter that the Committee of the Chamber of Commerce accept as correct the description of the nature and scope of the fund given in the preceding paragraph. The only point of difference between the Chamber and the Government is on the question whether or not the limit mentioned has been reached. Your Committee state that they "do not consider that a point has yet been reached which guarantees absolute safety as regards the currency." The Government of India entirely agree with the Chamber that the question should not be considered merely from the point of view of the position at the moment being satisfactory and of there being no likelihood of the fund being at present brought into use, and they accept your description of the fund as one "which guarantees the determination of the Indian Government to maintain the gold value of the rupee." The mention of the sum of 25,000,000*l.* in your letter is not explained; but it is surmised that the Chamber consider that to be the point beyond which investments need not be continued; if that is so, the Government of India find difficulty in understanding the references made in your letter to uncertainty connected with further allocations from the fund after that total is reached.

4. I am directed to invite the attention of the Chamber to the references to the subject made in the Budget Debate by the Hon'ble Mr. Gokhale, the Hon'ble Mr. Finlay and the Hon'ble Mr. Baker. Mr. Baker in his speech said that "the time is approaching when it will be necessary to consider "whether any, and if so, what limit should be put on the amount of the "invested portion, and this question we shall take up without delay. Until "that has been done, it will be premature and possibly embarrassing to make "any public declaration of policy." Since this statement was made, the question has been under consideration by the Government of India and the Secretary of State; and it was referred by Mr. Morley for the opinion of the Committee recently appointed to deal with Railway finance, of which Sir D. Barbour is a member. The conclusions arrived at were, that ample provision for maintaining the value of the rupee already exists; that, in view of present trade conditions, of the amount of the sterling securities held in the Gold Standard Reserve, and of the amount of gold in the Currency and in the Treasuries, any danger of a fall in exchange is illusory; but that, as the question is one which cannot be determined with mathematical precision and as there is room for difference of opinion, one-half of the future profits on coinage shall continue to be invested in sterling securities until the total of the investments amounts to 20 millions sterling.

5. In explanation of these conclusions I am to invite the attention of the Chamber to the fact that the investments of the Gold Standard Reserve are not the only provision which the Government of India have made for use in the event of it being necessary to check a tendency to a fall in exchange. The Government also hold in the Currency Reserve and in the Treasuries a large stock of sovereigns. These amount now to over 10,000,000*l.*, and that stock of gold is equally available for the purpose of preventing a fall in exchange, notwithstanding that it might be brought into operation in a different manner from the Gold Standard Reserve itself. The amount of the sterling investments of the Gold Standard Reserve is nearly 13,000,000*l.* The Government have therefore available for the purpose of combating a fall of exchange a sum of about 23,000,000*l.* It has been held by good authorities that the sum of 20,000,000*l.* is enough to give a reasonable guarantee of safety against the risk of a fall in exchange. The provision already made exceeds this amount by about three millions. In view, however, of the fact that there is room for difference of opinion as to the exact amount of the limit, and as it is better in so important a matter to err on the side of caution, the Government decided to continue the investments to the extent of half the future profits on coinage until the amount in the Gold Standard Reserve alone reaches 20,000,000*l.* When that limit is reached the total provision against the risk under consideration will amount to about 30,000,000*l.*, if the stock of sovereigns remains at its present level.

6. In conclusion I am directed to say that in ordinary circumstances the Government of India would not have adopted the decision above described without first publishing their proposals and inviting the comments of Chambers of Commerce and other public bodies. To have adopted this course on the present occasion, however, would have involved consequences which, it is believed, could not have commended themselves to the commercial public. The urgent demands for additional rolling stock had led the Government of India to recommend to the Secretary of State that a large expenditure should be incurred in the next few years on the purchase of wagons, in addition to the amounts provided in the railway programme published with the Financial Statement. The Secretary of State accepted the Government of India's view as to the urgency of this expenditure, and sanctioned an extra allotment of one million for this purpose in the current year. The state of the London money market, however, rendered it inexpedient to raise that amount by sterling borrowing. It was, therefore, necessary either to postpone the increased expenditure on wagons or to dispense with the consultation of public opinion in India on the question of the use of the Gold Standard Reserve, because of the delay which would have been involved. The decision was to accept the latter as the lesser of the two evils.

7. I am directed to express a hope that the Bombay Chamber of Commerce, in view of the explanations given in this letter, will come to the conclusion that the decision which they criticise will not involve the evil results which they fear.

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 131, dated 20th September 1907.

MY LORD,

I HAVE considered in Council your Excellency's letter in the Finance Department, No. 296, of the 8th August 1907, regarding the limit to be assigned to the accumulation of the Gold Standard Reserve and the purposes to which, after a certain limit has been reached the profits on the coinage of silver, or a part of them, should be applied.

2. I am glad to note that up to a certain point your Government and myself are in substantial agreement on this question. We are agreed that, after the value of the sterling investments of the reserve has reached a certain limit, their further accumulation may be restricted, and that the funds thus made available may properly be applied to the reduction of borrowings for railway expenditure. We are further agreed that until the value of the sterling investments has reached 20,000,000*l.* the whole of the interest on them shall continue to be invested in the same manner. I note that you accept my decision that half the profits of coinage shall henceforth be used for capital expenditure on railways, though, I regret to observe, it is opposed to the views of some of the members of your Government, who would not have recommended that any part of those profits should be so employed until the 20 million limit has been reached.

3. The profits from the coinage of silver have averaged in the last three years about 3,000,000*l.* per annum. Should they continue at approximately the same rate, and should the values of the existing investments of the Reserve be not materially altered, the effect of my decision will be to postpone by somewhat less than two years the date by which the limit of 20,000,000*l.* will be reached.

4. With reference to paragraph 2 (2) of your letter, I propose that the course to be followed, after the above total has been reached, should be reserved for further consideration when the value of the investments nearly approaches that limit.

5. I take this opportunity of forwarding for the information of your Government, a copy of the interim Report* of the Committee on Indian Railway Finance.

I have, &c.,
(Signed) JOHN MORLEY.

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* *See* p. 156.

Telegram from VICEROY, dated 20th November 1907.

Financial Department. We have been requested by the Exchange Banks to issue telegraphic transfers on you at the rate of 15 rupees to the sovereign. In reply we have informed them that before giving any answer we must refer the matter to you. The request, in the present state of Treasury balances, could only be met by drawing on Currency gold in London. This would, we consider, be contrary to the purposes for which the gold is maintained, and therefore open to strong objection, especially as it would weaken our capacity to remit to you for Treasury purposes in the event of exchange continuing weak. Our advice therefore is that we may be authorised to refuse the application.

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Telegram from SECRETARY OF STATE to VICEROY, dated 20th November 1907.

Telegraphic transfers. Your telegram of the 20th instant. You have my authority to inform exchange banks that you are unable to accede to their application.

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Telegram from SECRETARY OF STATE to VICEROY, dated 21st November 1907.

Please inform me if it is the case, as reported here, that you have informed the Exchange Banks that you will not give gold for export, while you continue to give it for internal purposes. In my opinion it might be well to ascertain from the banks how much gold they desire to take, and, if the amount is not excessive, to let them have it. As a result, the rupee currency would be contracted by the withdrawal of gold, and the renewal of a demand for Council Bills would thereby be hastened. The amount of gold to be withdrawn from currency here would thus be reduced, and Government stock of gold would, as ultimate result, remain unaltered. I am aware that gold bought from you at 1*s.* 4*d.* the rupee may be remitted to Egypt or London and drawn again at lower rate, and that Banks would make this profit. But the amount of gold shipped will probably not be large, and confidence in the exchange position might tend to be restored by what I have suggested. I shall be glad if you will send me your reply as early as you can.

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Telegram from VICEROY, dated 27th November 1907.

Your Financial telegram of 21st instant. Gold.

(1) Gold for export has not been refused, but the issue of gold in one day to any individual has been restricted by us to 10,000*l.* Up to this daily limit, banks in Bombay are taking gold steadily, over 100,000*l.* having been drawn last week, and another 100,000*l.* yesterday and to-day. British Postal Orders for 10,000*l.* and other large sums have also been bought by certain banks, and the question whether a limit should not be imposed on the issue of such orders is now under consideration.

(2) In accordance with your directions the banks have been asked to state what amount of gold they would take, if we agreed to make it freely available. In the opinion of the Calcutta banks the outside limit of banking requirements for whole of India would be 1,000,000*l.* They advise that if Government's intention to give this amount were declared, only a relatively small quantity would actually be taken. Views similar to those suggested in your telegram are held by the Bombay banks; they decline to furnish any estimate of the requirements, but think any large bullion export is improbable, since the export season is beginning. Their argument is that confidence would be restored by the immediate issue of Government gold at 15 rupees, and urge that, for the purpose of steadying exchange, it is the duty of Government to use its reserves freely.

(3) Although the banks formerly asked us for telegraphic transfers, they are now agreed that they would prefer local issues of gold. The general public, particularly natives, would find the latter course more intelligible, and large internal withdrawals of gold for hoarding would be prevented.

(4) A considerable part of our gold balance in India, which is now under 3,500,000*l.*, is scattered in Currency offices up country, and for internal needs we must maintain a substantial margin. Up to 1,000.000*l.*, however, we could arrange to issue freely, but in giving more we should find great difficulty. We feel very strongly, while prepared to meet your wishes to this extent, that the position will be serious if further demands are made, and we are forced to discontinue issues. The only resort would then be the issue of transfers on you, and how far that method could be continued to meet trade demands depends upon your own requirements and the prospect that Council drawings will be resumed at an early date.

(5) Improvement in exchange to-day has resulted from your release of currency gold yesterday.

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Telegram from SECRETARY OF STATE to VICEROY, dated 28th November 1907.

Your Financial telegram of 27th instant. After discussing the situation with the Exchange Banks I offer the following suggestion for your consideration, viz., that, in addition to the relief that you are giving by issues of gold, you should also, in order to give confidence and steady exchange, at once issue a notice inviting tenders for telegraphic transfers of 250,000*l.* on London, at early date, at rates not exceeding 1*s.* $3\frac{7}{32}d.$ the rupee. 10,000*l.* should be minimum amount of each tender. I shall, if you agree, meet any transfers that may be sold by withdrawing gold from Currency. You might also intimate that you will from time to time, until further notice, call for similar tenders. The demand for gold should tend to be diminished by this measure. Kindly let me know by telegraph if these proposals meet with your concurrence.

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Telegram from VICEROY, dated 3rd December 1907.

Your Finance telegram of the 28th November. Sale of transfers on London and issue of gold. Steady improvement in exchange is in progress and telegraphic transfers are being sold to-day by Calcutta banks at 1*s.* $3\frac{7}{8}d.$ A large part of the gold taken for export at Bombay is returning to us. Adoption of the course suggested by you, therefore, appears to us to be unnecessary at present, and though it is approved by the banks consulted by us here, it is apparently rather as a precedent than as a necessity in the present situation that it would be welcomed by them. With a view, however, to possible future fall in exchange we should be glad to keep proposed notice in reserve, with power (unless you should prefer, if the necessity arises, to offer telegraphic transfers at a fixed rate of 1*s.* $3\frac{29}{32}d.$) to issue it on the first appearance of serious weakness. The public would find a fixed rate more intelligible than the invitation of tenders and tenders at a lower rate would not in any case be expected or welcomed by us. We should, of course, consult you before drawing on you in excess of whatever limit you may decide to be convenient, but we are inclined to think that it would be better not to specify any particular amount for sale.

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Telegram from VICEROY, dated 5th December 1907.

Sale of transfers on London. Please let us know whether we shall receive orders on our telegram of the 20th November, or whether we may take it that the proposals therein made are accepted. If you concur in the proposals, it would, we consider, be well for us to inform the banks privately of our power to notify telegraphic transfers, and of our intention to use that power if exchange shows any signs of serious weakness. Since our last telegram there has been a steady improvement in the position, and there is now no need for present action.

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Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 5th December 1907.

Exchange. I concur in view expressed in your telegram of 3rd instant that it is not necessary now to offer transfers on London. I am of opinion that, if in future there should be a serious drop in exchange, it would be preferable to adopt procedure similar to that proposed in my telegram of 28th November, rather than to offer to sell at fixed price without specifying amount. Adoption of latter method might entail inconvenient choice between excessive drain on my resources at very short notice and a sudden suspension of the offer. I will reply, as soon as possible, to your telegram of to-day regarding private communication to Banks.

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Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 6th December 1907.

Your telegram of yesterday. Exchange Banks may be informed that, in event of serious weakness in exchange, Government contemplates offering for tender, in India, sterling exchange on London. The procedure to be adopted would follow that indicated in my telegram of 28th ultimo. Banks should be told that this communication is made because you recognise advantage of letting them know your views and intentions, but that it does not convey a definite pledge, and that Government reserves discretion to act as it thinks best in any future case on consideration of all circumstances then existing.

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Telegram from VICEROY, dated 7th December 1907.

Exchange. Your telegram of the 5th December. There has again been a slight fall, and we shall offer telegraphic transfers, to a maximum limit of quarter of a million pounds sterling, if the rate falls below 1*s.* $3\frac{29}{32}d.$ Details of all transfers granted will be telegraphed to you by the Comptroller-General. As regards the method of allotting the transfers, we request reconsideration of your decision. There appears to be no advantage in asking for tenders. If, as would be probably be the case, all the tenders were at the highest rate, it would be useless; and if lower rates were offered by the tenderers in competition with each other it would be mischievous. Our aim is to encourage the tenderers to offer the highest rate which we are willing to accept, and this end could be best obtained, and confidence inspired, by offering the transfers at a fixed rate of 1*s.* $3\frac{29}{32}d.$ The transfers would be allotted in order of application.

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Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 9th December 1907.

Telegraphic transfers on London. I approve of your proposals in your telegram of the 7th December. Subject to the minimum of 10,000*l.*, transfers should be in multiples of 1,000*l.* In order that I may arrange to meet transfers, I shall be glad to know, as soon as possible, when offer will be made.

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Telegram from VICEROY, dated 13th December 1907.

Please refer to your telegram of the 9th December. We are unable at present to say when an offer of telegraphic transfers on London will be made, as the rate of exchange remains steady at 1s. $3\frac{29}{32}d.$, and, until it drops below that figure, no action is proposed. When it is actually necessary to make the offer you will be at once informed. We shall, when making the offer, announce that the transfers will be available in Bombay, Calcutta, and Madras, and advices of their grant may therefore be expected not only from the Comptroller-General, but also from the Accountants-General at Madras and Bombay.

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Telegram to VICEROY, dated 25th February 1908.

Rate of Exchange. Your telegram of 13th December. Having consulted with Exchange Banks, I have come to the conclusion that it will be better for you to sell bills on London at 1*s.* $3\frac{29}{32}d.$, if the rate of exchange falls again, rather than telegraphic transfers. The Exchange Banks state that bills will do equally well for them. The amount to be sold will necessarily depend on circumstances, and cannot be decided in advance; a bill must not be sold for a smaller amount than 10,000*l.* Please communicate the above information to the Exchange Banks. The lowest rate which can be fixed for the bills is 1*s.* $3\frac{29}{32}d.$ as, if it were lower, Banks would prefer shipping sovereigns. If at any time you are satisfied that a sale would be useful for strengthening exchange, you may sell 250,000*l.* worth of bills without previously consulting me. Of course, when you sell them you will telegraph to me. When you have informed the Exchange Banks in India as above, please let me know by telegraph, in order that the Head Offices in London may be informed.

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Telegram from VICEROY, dated 3rd March 1908.

Your telegram 25th February and previous correspondence. Exchange remains low in spite of this being the normally busy season, and the telegraphic rates cannot rise over $15\frac{29}{32}d.$ Also it seems highly possible that after March, when exports diminish, there will be weakness. Meanwhile, it seems from your curtailment of Council Drawings that you may shortly have to transfer a considerable quantity of gold from Currency to your Treasury. Thus, if there is a falling Exchange in the slack season, we may have to draw bills on you which you will only be able to meet by withdrawals of gold from the Gold Standard Reserve. Accordingly we suggest that you should consider the expediency of refraining from further investments on account of the Gold Standard Reserve and of not renewing Treasury Bills, &c., as they mature, in order to increase the stock of liquid gold in the Reserve. Despatch follows shortly.

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Telegram from VICEROY, dated 4th March 1908.

Your telegram of 25th February. Rate of Exchange. The Exchange Banks have been informed that instead of arrangement previously communicated we shall be prepared, if the demand rate falls below $15\frac{29}{32}d.$, to sell sterling bills at $15\frac{29}{32}d.$, up to a maximum of 250,000*l.* at a time. No bill of smaller denomination than 10,000*l.* to be sold, and precise amount offered to be fixed according to circumstances. We should be glad to receive your instructions on the following difficulty in procedure which the above arrangement involves. We propose, when the necessity occurs, to advertise bills for allotment at noon on the following Thursday, as the English mail leaves Calcutta Thursday evening. If tenders are much greater than the maximum limit up to which we are authorised to sell, the wholesale rejection of tenders might depress exchange for the week following, unless special bills can be sold to supplement the regular sale. These would be available (for issue at Bombay only) up to Friday afternoon. Accordingly we should be glad to be granted authority, in the case for a rush for bills to sell additional bills up to a further 250,000*l.* as a maximum in any one week, between Thursday noon and Friday 4 p.m. There would not be time to get your previous consent for each sale, but we should of course at once telegraph to you the amount of such bills sold.

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Telegram from SECRETARY OF STATE to VICEROY, dated 4th March 1908.

Exchange. Points mentioned in your telegram of yesterday have not escaped my notice. With reference to your telegram of to-day, there does not seem to me to be any object in selling 500,000*l.* by two instalments in the week, but I authorise you to advertise the sale of that amount without consulting me on any Thursday for the present.

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Telegram from COMPTROLLER-GENERAL, dated 26th March 1908.

My telegram of to-day. Tenders received, bills on Secretary of State for India 70,000*l.* only from the National Bank of India. Tenders accepted in full.

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 2nd April 1908.

In order to be in a better position to meet the bills which you draw upon London, I have sold Consols, and now hold in my balances about 1,100,000*l.* belonging to the Gold Reserve Fund, including the 318,000*l.* which you mention in your telegram of 23rd March. This sum will, like the rest of my balances be lent on security on short temporary loans, and the Gold Standard Reserve will be credited with the interest received thereon. In the accounts of the Fund, the amount thus temporarily lent should be described as temporarily forming part of my balances.

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Telegram from VICEROY, dated 11th September 1908.

No sterling bills have been sold for four weeks, and exchange being steady above 1*s.* $3\frac{15}{16}$*d.* per rupee, and Council bills being freely sold, we are announcing to-day discontinuance of offer of bills.

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No. 89, dated 1st April 1909.

MY LORD,

We have the honour to address you regarding certain aspects of the present position of currency and exchange. So long as prospects were uncertain and exchange persistently low, we refrained from raising questions which might be regarded, in the circumstances, as mainly of academic interest. Now, however, that the outlook is more reassuring, we think it advisable to sum up the lessons of the recent operations in support of exchange.

2. In 1908, the Gold Standard Reserve was, for the first time, employed in fulfilment of the object for which it was established. Owing to the entire reversal of the balance of trade, exchange fell below "specie point" in March 1908, and we prevented a further drop, which would otherwise have been inevitable, by selling Bills on London until the return of more normal conditions restored the market rate to $1/3\frac{29}{32}$ in August. In the process, Government remitted to London 8,058,000*l.* for the public, and withdrew 12¼ millions of rupees from circulation in India Intervention on this scale with the natural course of international exchange was clearly an event of the highest importance in our currency history. It has committed us in the eyes of the public, to a line of action which. though essential to the success of our policy, has not been always clearly foreseen. The accumulation of a gold reserve in England has frequently been spoken of as if its only purpose were to enable the Secretary of State on occasion to meet his Home charges without being compelled to draw upon India for funds in an unfavourable market. But the further development which places our gold reserve at the disposal of the private remitter is a definite pledge of our active support of the Gold Standard. Any failure to fulfil that pledge, either through the exhaustion of the reserve or for other cause, would shake public confidence in our currency policy to a degree which it would be difficult to estimate.

3. The test of our capacity to maintain our policy is unquestionably the strength of the Gold Standard Reserve. The gold which Your Lordship holds in your currency chest, and which has sometimes been described as our first line of defence, as well as the gold which we hold in India whether in our

treasuries or in the currency reserve, disappear into relative unimportance when the balance of trade sets against us for any prolonged period. Our stock of gold in India ceases to be replenished through the ordinary channels, and melts away. The currency gold in London has to be taken by you for our Home charges, when exchange prohibits you from financing them by Council drawings. We have thus to fall back upon the Gold Standard Reserve at a comparatively early stage of a bad cycle. It is the recognized fulcrum of our whole currency system; and its strength is of vital importance both to Government and to the merchants, capitalists and investors who are associated with us in the development of India.

4. In the light of last year's experience, it seems to us impossible to maintain that our Gold Standard Reserve has ever yet approached the position which it ought to occupy. The ideal strength of the Reserve has been the subject of much discussion, and figures have been quoted, ranging from 10,000,000*l.* to an amount which would enable the Secretary of State to curtail his drawings by one-half during a period of three successive years. But we may now dispense with *à priori* calculations. During the period from November 1907, when exchange first fell substantially below 1*s.* 4*d.*, until the end of January last, we lost 15 millions of our gold, thus:

| | November 1907. | February 1909. |
|---|---|---|
| Gold Standard Reserve - - - | 14·2 | 7·9 |
| Currency gold in England - - | 6·2 | 1·5 |
| Government gold held in India - | 4·2 | ·1 |
| | 24·6 | 9·5 |

This is the result of a little more than a single year of adverse conditions and of a famine which was more restricted in its area than is frequently the case with similar calamities. There is unhappily no assurance that our next period of adversity may not be more prolonged, and it would be no excess of caution if we were armed against two conseeutive years such as the one through which we have just passed. We have no wish to speak dogmatically, but we are strongly disposed to regard 25 millions as the minimum of safety in the Gold Standard Reserve, apart from the gold which we may be able to hold in our currency reserve and our treasuries.

5. This brings us to the first definite proposal which we wish to submit for your Lordship's consideration. In July 1907 you decided that 1,000,000*l.* out of our profits on coinage might safely be diverted from the Reserve to be utilised on railway capital expenditure. We deprecated the decision at the time, but accepted it and have defended it against an outburst of public criticism in India. You subsequently determined that half the profits on the coinage of rupees should be consistently diverted in the same manner, and this course has accordingly been followed so long as any profits accrued. We would now ask you, however, to reconsider your decision, and to allow the future profits on coinage to pass into the Gold Standard Reserve without deduction, until the Reserve stands at a much higher figure than it has yet attained. We do not yield to your Lordship in our desire to press forward railway development in India: but we are convinced that the stability of our currency is a far more vital factor in the welfare of the country than the pace at which our railway facilities are extended. It is highly significant that this view is so widely shared by the mercantile community, in spite of the strong personal interest which attaches large sections of them to an active railway policy. We have already forwarded to you the expression of opinion by the Bombay Chamber of Commerce on the subject*; and we now submit, for your information, copies of similar protests which we received from the Chambers at Calcutta, Madras, and Karachi. The position has again been dealt with, in a similar strain and with much conviction, by the Chairman of the Bombay Chamber, whose remarks on the subject at the

* Enclosure to Government of India's Despatch No. 296, dated the 8th August 1907, page 160.

Chamber's annual meeting on the 3rd instant have met with the general approval of the business public in India. We find ourselves in entire accord with these views, and we would earnestly press upon your Lordship the impolicy of retarding the growth of the Reserve when circumstances again permit us to renew the coinage of rupees.

6. Another aspect of the Gold Standard Reserve which attracts much criticism in India is the form in which it is held. When the Reserve was first established, it was the desire of Lord Curzon's Government that it should be kept in liquid gold in India. Your predecessor decided to the contrary, and it was invested in gold securities, which have lost appreciably in value. We are not prepared to revive the proposal that the gold should be held in India, though it is our duty to refer to the very strong feeling in favour of such a course which prevails in this country. The feeling is partly sentimental; there is an idea that the gold belongs to India and should be held there. But there is also a belief that its presence in India would be a tangible sign of our Gold Standard, and that its issue in India, when necessary, would be equally effective with the present arrangements to stem a fall in exchange, besides tending to increase the popularity of a gold currency. We do not lay stress on these arguments at present. When exchange is weak, it seems hardly material whether we strengthen it by issuing gold in England or in India. The former is probably the more convenient; and the ideal would be to employ both remedies simultaneously, if we were in a position to do so.

7. But, while we do not press for any change in the location of the Gold Standard Reserve, we attach very great importance to our second proposal, that a substantial part of the Reserve should be held in a liquid form. This seems to us to be necessitated both by expediency and on broader grounds of policy. We do not lay stress on the loss that has occurred in selling the Reserve securities during 1908; those losses have been more than covered by the accrued interest. What we fear is a combination of events which would demand the employment of the Reserve at a time when large sales of British Government securities in London would be contrary to Imperial interests. Such a combination is by no means inconceivable; and even in less serious situations the free employment of the Reserve might be gravely hampered by the form in which it is now held. The point is one on which informed public opinion in India is singularly unanimous. We are frequently asked why we strain after interest on the Reserve which is the basis of our currency system, and consequently one of the chief pillars of the credit of India; and it is pointed out that other countries are careful to retain the ultimate foundation of their credit in bullion. We think these views deserve every consideration, and we are satisfied that it would have an excellent effect if Your Lordship decides to refrain from further investment of the Reserve gold. That such a course is right on general grounds we consider to be beyond question. Our strength in combating a low exchange depends, broadly speaking, on our ability to reduce the supply of rupees and to augment the supply of gold. If we can do both simultaneously, our intervention is the sooner effective. At present, we can only reduce the supply of rupees; for our gold has already been put on the market, and all that is meant by realising it is the transfer of certain securities from Government to another holder. Moreover, we conceive that the position of the Government of India in the markets of the world would be much stronger as the possessor of a large store of liquid gold than as the possessor of a corresponding capital in Consols or similar securities. In the former case, the Indian Government might in emergency be powerful to help the market: in the latter there would always be the potential danger of their wishing to realise at an inconvenient season. We would therefore urge on Your Lordship the propriety of building up a substantial share of the Reserve in liquid gold, to be held under as nearly as possible the same conditions as the currency gold in London.

8. We have intentionally avoided any general review of our currency policy. Our object for the moment is to place before you the views which are held in India regarding the Gold Standard Reserve, and the convictions

that have been forced upon us by the experience of the last year. The two modifications in procedure which we recommend are in entire harmony with the declared policy of supporting the Gold Standard, and they will go far to secure public confidence in our intentions.

We have, &c.,
(Signed) MINTO.
KITCHENER.
C. H. SCOTT.
H. E. RICHARDS
H. ADAMSON.
J. O. MILLER.
W. L. HARVEY.
G. F. WILSON.

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Enclosure No. 1.

Dated 16th August 1907.

From The Honourable Mr. V. G. LYNN, Chairman, Chamber of Commerce, Madras, to the Secretary to the Government of India, Finance Department.

I have the honour to address you with reference to the Secretary of State's reply in the House of Commons, on the 9th July 1907, to Sir Edward Sassoon's question regarding the Gold Standard Reserve Fund and the policy of adding to it the whole profit on coinage.

When it became known that profits on coinage were to be diverted to a Silver Branch of the Reserve Fund the mercantile community, through its representative Chambers of Commerce, expressed dissent, and in reply was informed that the Silver Branch was expected to reach the limit of R6 crores required by March of this year, and that thereafter the profit on coinage would be credited to the reserve in gold as before; and in the discussion of the Financial Statement for 1906-07, in reply to the Honourable Mr. Finlay's suggestion that the time might shortly come when the profits on coinage could be utilised for the development of railways, the Finance Minister stated that assistance would not become available from this source until the invested portion of the Reserve Fund is considerably larger than it is now.

This Chamber therefore cannot but view with very grave apprehension the decision that has now been arrived at, to appropriate half the profit on coinage towards railway development. The Honourable Mr. Finlay admitted that the question was one which must be decided without reference to the need of the railways, but with reference solely to the sufficiency of the Gold Standard Reserve Fund for the purpose for which it is formed, and the Chamber submits that there has been no change in the position to justify the alteration of policy, and that as stability of exchange is mainly dependent on public confidence in the ability of Government to combat adverse influences, a vacillating policy such as at present obtains is fraught with very grave dangers.

In recent years the Gold Standard Reserve Fund has accumulated very rapidly, the coinage of rupees having been abnormally high in consonance with the export trade; but the Chamber submits that this prosperity cannot be expected to continue indefinitely without interruption. Reactions may be expected from time to time, to meet which it is essential that the Gold Standard Reserve be in liquid form, large enough to meet any calls upon it without danger of depletion. In the opinion of the Chamber, the reserve required is not yet in sight, and the Chamber respectfully begs to urge the necessity of allocating to the Fund the whole of the profit on coinage as it accrues, there being no guarantee as to how long this profit will be available.

It seems to the Chamber unlikely that the active circulation in this country will be able to absorb an average of fifteen crores of new rupees annually, and in the absence of a large demand for coined rupees from foreign countries, coining must again be suspended or the country will suffer from an inflated currency. That a large foreign demand exists is known, and this, the Chamber submits, creates an element of danger which should not be lost sight of. Although the day when countries now using Indian

rupees will establish their own coinage and send back to India all the rupees circulating in their respective territory may be remote, it is nevertheless a contingency which has to be provided for, and the more remote the day, the greater will be the liability. Before this happens, conditions unfavourable to exchange may temporarily arise, and should Government find it necessary to indent on the Gold Standard Reserve Fund, the position would be closely watched in countries using Indian rupees, and in the event of the Fund showing signs of depletion they would quickly be returned from abroad, and so aggravate the situation. In addition to the coined rupees held by foreign countries there is the Rupee Paper held in London, amounting to R16 crores, which not improbably might also be returned, to the further aggravation of the position.

When the London Money Market is strained, as at present, it might be found well nigh imposible to realise any appreciable amount of the invested portion of the Fund, and in the event of unfavourable conditions arising, the actual gold in the Reserve Fund being infinitesimal, the only gold available for the Government of India to fall back upon is that in the Currency Reserve, which does not amount to much more than six months' Home Charges, a sum which this Chamber considers quite inadequate to ensure the stability of exchange. For this reason the Chamber would advocate that future additions to the Fund be maintained in gold coin or bullion.

Another factor that appears to the Chamber worthy of consideration is the growing demand for gold as a medium of circulation. As this demand increases, in equal proportion will the demand for rupees and profit on coinage decrease.

In conclusion, the Chamber desires to say that in its opinion the Gold Standard Reserve Fund is still inadequate for the purpose for which it is formed, and, for the reasons set forth above, it respectfully deprecates any further deflections from it of the profit on coinage.

## Enclosure No. 2.

No. 1457, dated 6th September 1907.

From the Secretary, Bengal Chamber of Commerce, to the Secretary to the Government of India, Finance Department.

I am directed by the Committee of the Bengal Chamber of Commerce to address you with reference to the recent decision of the Secretary of State for India to divert a moiety of the profits on coinage to Railway Capital expenditure.

2. The Committee have not so far offered any opinion upon this decision. Their position in regard to it is, that for a number of years they have strongly and consistently advocated the need for increased Capital expenditure on railway equipment.* They did not hesitate to express publicly their dissatisfaction when it was announced that the railway grant for the current year was to be reduced; and they urged that steps should be promptly taken to raise the grant to the limit originally fixed. The Secretary of State has evidently also come to this conclusion, although he has not been able to adopt the means proposed by the Committee. The method which he has followed has called forth much adverse criticism; and the Committee are not, they regret to say, themselves able to give it their unqualified support, greatly as they appreciate the object in view. For the maintenance of the gold value of the rupee is a matter of even greater consequence than the improvement of the Indian railway system. It rests upon the confidence of the public in the Currency policy of the Government of India; and clearly, therefore, that policy must be such as is calculated to inspire and to promote confidence rather than to give rise to doubt or hesitation. The present is admittedly a period of remarkable trade development in India; and the Committee acknowledge that, so long as existing conditions continue, no adverse effect of the decision can be apparent. But it is only one of several

* Letter No. 826/07, dated 11th May 1907, from the Chamber, to the Government of India, Department of Commerce and Industry (not printed).

changes which have been made recently, and which are leading the public to believe that the Currency policy of the Government is by no means of so clear and definite a character as was at one time anticipated.

3. To illustrate what they mean, the Committee would refer, in the first place, to the various figures which have been named from time to time as the limit for the Gold Standard Reserve. In the course of the Budget Debate on the 30th March 1904, Lord Curzon said that 10,000,000*l.* would give "a permanent guarantee for stability of exchange." Twelve months later, the Honourable the Finance Minister said he would like to see the Reserve raised to "something between 20 and 30 millions sterling."* In the following year Mr. Baker appeared to have come to the conclusion that "there can be no limit to the Gold Reserve Fund." "So long" he said, "as India has a Gold Standard combined with a Currency which consists "mainly of rupees, I consider that we are bound to set apart the whole of "the profits on additions to the coinage."† And after stating his reasons for this important expression of opinion, he added: "We must, therefore, "resist all temptation to use these profits for ordinary current expenditure."‡ Mr. Baker again referred to the subject in the last Budget Debate, and you now quote his speech on that occasion in support of the decision to supplement the ordinary revenue of the country by a diversion of part of the coinage profits. The Committee wish it to be understood that they cite these passages simply in order to show that, so far as the public can judge, the opinion of the Government of India in regard to the limit of the Gold Standard Reserve is indefinite; it seems to be changing from year to year. It may be, of course, that these changes are more apparent than real, but the public can only arrive at conclusions upon the information which is placed at its disposal. Then again, last year what the Government defined as a "Silver Branch" of the Gold Standard Reserve, was formed. But no previous intimation was given that any such step was contemplated; and the subsequent protests of the commercial community were disregarded, although they were supported by Sir Edward Law, the late Finance Minister. Furthermore, what was described as "a temporary loan" was taken in December 1906 from this Silver Branch of the Reserve "in order to assist "the Government in meeting the very heavy issues of Telegraphic Transfers "by the Secretary of State."§ But the Indian Chambers of Commerce were not asked how they would view such a diversion of the Fund; and, in fact, nothing was known of the matter until the receipt of your letter from which I have just quoted.

4. At the moment, the Committee are not so much concerned with the merits of either of these two new departures. The point is that, taken in conjunction with the further most important change which has just been made, and with the unsettled state of opinion as to the limit of the reserve, they will have, or may have, the ultimate effect of seriously disturbing public confidence. No doubt it will be argued that in an undertaking of such magnitude an absolutely rigid and inflexible policy is an impossibility; that experience of the working of the delicate machinery by which the stability of exchange is secured is certain to suggest changes from time to time; and that such prompt action is sometimes necessary as to prevent consultation with the representatives of mercantile interests. The Committee do not deny that there may be force in this contention. But they are convinced that sudden changes must ultimately have an unsettling influence, and that no effort should be therefore spared to reduce them to an absolute minimum. The Committee do not pretend to be able to suggest a course of action by which the Government could have avoided what has been done. It is, however, their considered opinion that a more definite policy is imperative if confidence is to be permanently maintained; and they believe that the leading features of such a policy cannot be defined without a further

* Budget Debate, 29th March 1905. (H.C. 167 of 1905, page 206.)
† Budget Debate, 28th March 1906. (H.C. 162 of 1906, page 212.)
‡ Letter dated 19th August 1907, from the Government of India, Finance Department, to the Bombay Chamber of Commerce (not printed).
§ Letter No. 561A, dated 26th January 1907, from the Government of India, Finance Department, to the Bengal Chamber of Commerce (not printed).

exhaustive inquiry. In fact, they are persuaded that the time has come when the Indian Currency question ought to be once more thoroughly examined by a commission of experts.

5. It will be 10 years in April next since the appointment of the last Currency Commission. The success of the policy which was based upon its recommendations has been perhaps greater, and certainly more immediate than was anticipated. The trade and commerce of the country have increased at an unexampled pace; and the resulting expansion of the Silver Currency has raised the Gold Reserve to a strong position within a comparatively brief period. But prosperity has brought with it new problems for solution, and one of the greatest of these is the limit at which the Reserve ought to be fixed. That there is a diversity of opinion upon this vital point, need not be further insisted upon; and a ruling from an expert Commission, as to what would be a safe limit for the next 10 years, could not fail to inspire confidence. An almost equally important question is as regards the form in which the Reserve should be held. To maintain a sum approximately to 20 millions sterling, or perhaps more, in gold coin or bullion, might not, the Committee fear, commend itself to commercial men as a business proposition. But at the same time, there is a very strong feeling that the actual gold in the Reserve is insufficient; and it cannot be overlooked that the Fowler Commission recommended that the Reserve "should be kept in gold." A new Commission would examine this question attentively, and their opinion would be generally accepted as authoritative. The present position of what are known as gilt-edged securities opens up a further question for the consideration of the Commission. For, if investment is to be continued, the public will desire to have some assurance that a wise discrimination will be exercised in the choice of stock. There does not seem to be a general agreement that all the investments which have hitherto been made are in every respect the best possible.

6. The foregoing appear to the Committee of the Chamber to be some of the principal points which a Commission would investigate. But in connection with so complex and difficult a problem there are, of course, many other matters which would likewise come under review. When all of these had been considered, the Commission would be almost certainly in a position to define and to limit the policy of the Government for a further period of, say, 10 years. It may be reasonably expected that such a definition and limitation would have a marked beneficial effect. For it would obviate to the greatest extent possible the occurrence of such changes as those which have given rise to the present discussion; and it would dispel the idea, which now seems to be abroad, that a hesitating and vacillating policy is being pursued. A Commission would also afford an opportunity to all interested in the Currency question of placing their views on record; and the experience which has been gained during the past 10 years would be thus made available for the guidance of those who will be responsible in the future for the direction and management of Indian Currency affairs.

Enclosure No. 3.

No. 507, dated 1st October 1907.

From A. THOLE, Esq., Vice-Chairman, Karachi Chamber of Commerce,
to The Secretary to the Government of India, Finance Department.

The Committee of this Chamber have been favoured by the Bengal Chamber of Commerce with a copy of their letter to you, No. 1457—1907, dated 6th September, on the subject of the decision of the Secretary of State for India to divert a moiety on the profits on coinage to Railway Capital Expenditure.

While on the one hand my Committee acknowledge that the need for augmenting the carrying capacity of the principal Indian Railways is very urgent, and that under the present conditions of remarkable trade development

in India no immediate adverse effect of the decision can be apparent, on the other hand they entirely concur with the views expressed by the Bengal Chamber that the decision is one which may affect the confidence in the Currency policy of the Government of India, upon which the success of that policy greatly depends.

I am therefore desired by my Committee to express to you that they strongly support the views expressed by the Bengal Chamber in their letter above quoted, more especially with regard to the advisability of a new Currency Commission examining the whole question and making proposals for defining the policy to be followed in the management of Indian Currency affairs.

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 82, dated 2nd July 1909.

MY LORD,

IN your Letter No. 87, dated 1st April 1909, you discuss the administration of the Gold Standard Reserve, and suggest certain changes. The subject is one of great importance, and I therefore welcome the opportunity of considering it, in the light of recent events, in consultation with your Excellency's Government.

2. The proposals to which you invite my assent are as follows :—

(1) That the decision communicated to you in my telegram of 2nd July 1907, to use for capital expenditure on railways half the future profits on coinage shall be held in abeyance, and that the whole of the profits shall be paid to the Gold Standard Reserve until that Reserve stands at a much higher figure than it has yet attained.

(2) That a substantial part of the Reserve shall be held in gold.

3. The first of these proposals is based on the view that the amount at which the Reserve now stands is below the "minimum of safety," *i.e.*, is less than the amount which it is prudent to hold in the Reserve as a fund from which, until its exhaustion, the Secretary of State in Council may supply his own requirements (and, if necessary, meet bills of exchange sold in India) during the prevalence of conditions adverse to the maintenance of the rate of exchange at or about 1*s.* 4*d.* the rupee.

The question of the amount which the Reserve should be allowed to reach before any part of the profits of coinage is used for other objects has been discussed during the past five years by Lord Curzon, the late Sir Edward Law, Sir E. N. Baker, and the Committee on Railway Administration and Finance. There has been, as is natural, a striking divergence of views as to the amount that can be reasonably regarded as affording sufficient safeguards for the maintenance of exchange. In 1904 Lord Curzon observed: "Before "many years have passed I anticipate that this Reserve will have reached "the figure of 10 millions sterling, which will be sufficient for our purpose, "and will give us a permanent guarantee for stability of exchange." In 1905 the late Sir Edward Law expressed the opinion that a reserve of 20 millions would be an ample provision for the most unfavourable circumstances for which it would be reasonable to provide. Sir E. N. Baker, in 1905, said: "I should like to see (the Gold Standard Reserve) raised "to . . . . something between 20 and 30 millions sterling." The Committee on Railway Finance and Administration estimated, in June 1907, that at the end of the year then current the sterling portion of the Gold Standard Reserve would amount to about 14,500,000*l.*, and, as the stock of gold held by the Government outside the Reserve exceeded 11,000,000*l.*,

bringing the total sterling resources available for the support of exchange to about 25,500,000*l.*, they considered that it would not be imprudent to use for capital expenditure on railways 1,000,000*l.* of the profits expected from coinage in 1907–08.

It is not surprising that these estimates show a very wide range of variation, since even the last of them was made before conditions involving a strain on the Reserve had arisen or their imminence could be foreseen. Such conditions prevailed with great severity during a considerable portion of the financial years 1907–08 and 1908–09; and you suggest that the experience then gained enables *a priori* calculations such as those mentioned above to be put aside. You quote certain figures which show that during the period from November 1907 to February 1909 the sterling assets of all kinds available for use by the Government for strengthening exchange were reduced by 15,100,000*l.*, and you comment on these figures as follows:—

> "This (reduction) is the result of little more than a single year of adverse conditions, and of a famine which was more restricted in its area than is frequently the case with similar calamities. There is unhappily no assurance that our next period of adversity may not be more prolonged, and it would be no excess of caution if we were armed against two consecutive years such as the one through which we have just passed. We have no wish to speak dogmatically, but we are strongly disposed to regard 25 millions as the minimum of safety in the Gold Standard Reserve, apart from the gold which we may be able to hold in our currency reserve and in our treasuries."

4. I am inclined to think that the remarks quoted at the end of the preceding paragraph overstate what is required in order to provide suitable safeguards against a fall in exchange. My reasons are as follows:—

(A) It is true that the famine of 1907 was restricted both in area and duration, but it is also true that it occurred at a time when general conditions were exceptionally adverse to the maintenance of exchange. The effect of the famine in reducing India's power of exporting certain articles was felt at a time when the foreign demand for the articles that India was able to export was seriously restricted by commercial depression throughout a large part of the world, intensified, if not largely brought about, by the financial crisis in the United States of America. At the same time the Imports into India of merchandise and silver were on a very extensive scale, the large imports of merchandise being perhaps a consequence of the favourable trade conditions that India had enjoyed for several years previously, while the purchases of silver were without doubt encouraged by the low price. The result of these various causes was that during the period from 1st November 1907 to 31st October 1908 the foreign trade of India on Private Account showed a balance of net imports of 1,190,000*l.*, whereas, as will be seen from the enclosed statement, there was in each year from 1896 to 1907 (which period included two severe famines) a substantial balance of net exports in the corresponding months.

(B) The gold in the Paper Currency Department cannot, in my opinion, be left out of account in any calculation of the amount of sterling resources which should be held as a safeguard for exchange. The reasons which have commended to you the opposite conclusion are summarised in the following passage in paragraph 3 of your letter:—"The gold which your Lordship holds in your currency "chest, and which has sometimes been described as our first line "of defence, as well as the gold which we hold in India whether "in our treasuries or in the currency reserve, disappear into "relative unimportance when the balance of trade sets against "us for any prolonged period. Our stock of gold in India

" ceases to be replenished through the ordinary channels and " melts away. The currency gold in London has to be taken " by you for our home charges, when exchange prohibits you " from financing them by Council drawings. We have thus to " fall back on the Gold Standard Reserve at a comparatively " early stage of a bad cycle. It is the recognised fulcrum for our " whole currency system." It appears to me that in these sentences the importance of the following considerations is not fully recognised :—

(1) According to the figures given in paragraph 4 of your Letter (which, however, do not show the full reduction in the sterling resources of the Government at the time of their greatest depression) the measures taken in 1907 and 1908 for the maintenance of exchange involved a reduction of 15,100,000*l.* in the sterling resources held by the Government for this purpose, of which only 6,300,000*l.* was provided from the Gold Standard Reserve, the remaining 8,800,000*l.* having been taken from the gold held in England and India (4,700,000*l.* from the Currency Reserve in England and 4,100,000*l.* from the Currency Reserve and Treasuries in India).

(2) The Gold Standard Reserve can scarcely be said to have been used at a comparatively early stage of the recent depression in exchange. It was not touched until 13th April 1908, five and a half months after the fall of exchange below "specie point," during which period 2,500,000*l.* was taken in gold from the Paper Currency Reserve in England, and 1,413,000*l.* in India. The whole of the gold withdrawn in England and (as appears from your telegram of 27th November 1907) at least a considerable portion of that withdrawn in India was used for the support of exchange.

(3) In addition to these facts, it would appear to be clear on general grounds that any given sum of sterling money which is (*a*) used instead of the proceeds of Council bills towards meeting Home Charges, or (*b*) used to meet bills drawn by the Government of India on the Secretary of State in Council, or (*c*) issued in India to exporters in exchange for rupees, has exactly the same efficacy for supporting exchange whether it is drawn from the Gold Standard Reserve or from the Paper Currency Department.

5. While, for the reasons given above, I am unable to accord entire assent to your views on all the points that you have discussed in connection with your first proposal, I am entirely in agreement with you as to the paramount importance of maintaining such a reserve of sterling resources as may fairly be regarded as sufficient to maintain exchange in times of prolonged difficulty. In forming a conclusion as to the amount which should be regarded as sufficient for this purpose, it is necessary to bear in mind that it would be wasteful to accumulate a sum largely in excess of what is required to meet all difficulties against which it is reasonable to provide, since an excessive accumulation involves the locking up of funds which might be used for the industrial development of India. As at present advised, I am inclined to think that the prudent and economical course would be to regard 25,000,000*l.* as the minimum amount which should be accumulated in the form of sterling assets of the Gold Standard Reserve and gold held in the Paper Currency Department; and I am willing that, so long as the total of the resources just mentioned stands below that figure, the whole of the future profits on coinage shall be added to the Gold Standard Reserve.

6. It may apparently be possible to accumulate this amount, or even more, before the resumption of the coinage of rupees, if it is decided not to resume coinage until the stock of rupees in the Paper Currency Department falls to 15 crores, and the stock in the silver branch of the Gold Standard

Reserve to 3 crores, amounts which appear to constitute a sufficient minimum. The calculation on which this anticipation is based is as follows:—

| | £ |
|---|---|
| It is estimated that the Gold Standard Reserve will amount on 31st March 1910 to - - - - | 18,733,000 |
| From this must be deducted the amount to be held in rupees - - - - - - | 2,000,000 |
| Leaving as the amount which can be held in sterling - | 16,733,000 |
| The gold held in the Paper Currency Reserve in England is - - - - - - | 1,500,000 |
| The rupees in the Paper Currency Reserve amount to 3,362 lakhs. The substitution of gold for 1,862 lakhs would produce - - - - - - | 12,413,300 |
| Thus, if gold could be substituted for rupees in the Paper Currency Reserve to the full extent contemplated, the sterling resources in that Reserve and in the Gold Standard Reserve would amount to - - - | 30,646,300 |

Some allowance must be made for the possibility that (owing to a diminution of the gross circulation of notes) a reduction of the stock of rupees in the Paper Currency Reserve may take place without a corresponding increase of the stock of gold; but any estimate of the amount of such reduction would be of a very conjectural nature.

7. The considerations set forth above lead me to the conclusion that it is not necessary in the interests of exchange to modify, except to the extent mentioned in the last sentence of paragraph 5 above, the decision announced in 1907 to use half the profits on coinage for capital expenditure on railways. That decision was arrived at in view of the urgent necessity for supplying additional resources for railway development—a matter which has been pressed upon the Secretary of State in Council on many occasions by the Government of India—and on the difficulty and the danger to Indian credit involved in any increase of the present rate of borrowing. To retard the improvement and extension of the railway system in order to accumulate, beyond the limit which prudence requires, funds for the support of exchange would involve many disadvantages. At the same time I recognise that before the coinage of rupees is resumed—which may perhaps not occur for some years—new conditions may arise requiring special consideration. Your estimate of the capital expenditure which should be incurred on railways may be modified; loans may be obtained more easily; new experience may have been obtained of the fluctuations to which Indian trade and exchange are liable. I have no desire to forecast now the result of any discussion which may be carried on, in the light of such new conditions, at some uncertain time hereafter between the Secretary of State in Council and the Government of India as then constituted.

8. Your second proposal is that a substantial portion of the Reserve shall be held in gold.

9. The object of this proposal is to ensure that the Reserve shall be readily available whenever required, even though the necessity should arise at a time of general financial difficulty in London. There can, of course, be no possible doubt as to the importance of this object; but I am not satisfied that the adoption of your proposal, in substitution for the present method of dealing with the Reserve, is required for its attainment. As a matter of fact, I have carefully and constantly kept the same object in view whenever I

have had to decide as to the disposal of profits on coinage or of sums accruing to the Reserve by way of interest. The plan which I have followed has been as follows:—

(1) To hold a considerable portion of the Reserve in the form of high class securities with a near date of redemption, because cash can always be obtained at the shortest notice, by sale or loan, for such securities in the event of their realisation before maturity becoming necessary.

(2) To hold in addition such an amount of stocks yielding a higher rate of interest (*e.g.* Consols) as I can count on being able to sell in time to meet all requirements that should be met from the Reserve.

I have, of course, borne in mind that the realisation of the securities mentioned in (2) can be effected somewhat gradually, while the proceeds of the securities mentioned in (1) which can be turned into money practically at once, are being used, if necessary, for immediate requirements.

As my object has been precisely the same as that to which your proposal is directed, the chief practical question that can be raised (apart from those to be dealt with in paragraph 10 below) is whether I have succeeded in attaining it. I venture to think that the experience of 1908 shows that the answer to this question is in the affirmative. For, although the conditions in London in the year mentioned were very far from favourable to large sales of stock, there was no serious difficulty in providing from the Reserve the 8,058,000*l.*, which was required to meet the London bills drawn by your Excellency's Government, and the further sum of 934,000*l.*, which was temporarily applied from the same source towards defraying the Home charges; and I had also made arrangements for realising, if necessary, a considerable additional amount. In view of these facts I am unable to attach importance to the apprehension that "the free employment of the Reserve "might be seriously hampered by the form in which it is now held." I recognise, of course, that in times of prolonged depression of Indian trade, especially if accompanied by other adverse conditions, the realisation of securities to the amount required to support exchange would require care; but the operation ought not to be beyond the capacity of the Secretary of State in Council and his advisers, and I accept the responsibility for carrying it out on occasion arising.

In this connection it is not inappropriate to remind you that the weekly sales by you during several months in 1908 of sterling bills on London, which were the chief cause necessitating the realisation of securities, were undertaken at my suggestion (*see* my telegrams of 28th November 1907 and 25th February 1908), and that I did not on any occasion propose a reduction of the weekly amount, though I more than once proposed an increase.

10. The consideration dealt with in the preceding paragraph is the most important of those mentioned by you in favour of your proposal, but there are certain others which should be noticed.

One is that it was the desire of Lord Curzon's Government that the Reserve "should be held in liquid gold in India," and that Lord George Hamilton overruled their recommendation to this effect, and decided to hold the Reserve in securities. I find, on referring to the correspondence which took place when the Reserve was established, that Lord George Hamilton understood the Government of India to desire that the Reserve should be held either in gold or in securities saleable for gold, or partly in one form and partly in the other. Whether his understanding of their wishes was correct or not, it is clear that it would not now be reasonable to attach more importance to suggestions regarding the management of the Reserve which were made before its establishment than to the results of the experience, extending over more than eight years, which has since been gained.

A second argument, to which you refer with approval, is that "other "countries are careful to retain the ultimate foundation of their credit in

" bullion." I understand that these words are meant to convey that Governments which issue notes encashable in gold or silver on demand are in the habit of holding gold or silver in order to provide for the encashment. This remark is accurate, except so far as it needs to be qualified by a reference to the large fiduciary issues of most Governments; but it has little, if any, bearing on the question of the most suitable form for the Gold Standard Reserve. That Reserve will presumably be used in future, so far as it is used at all, for defraying the Home Charges when Council bills cannot be sold at or above the gold point, or for meeting London bills drawn by the Government of India. For either purpose easily realisable securities or bank balances are as useful as gold, and there is therefore no advantage in holding the latter.

A third argument used by you is that it is desirable that the Government of India, when combating a low exchange, shall be in a position not only to contract the circulation of rupees in India, which is done under the existing system, but also to expand the circulation of gold elsewhere simultaneously (the object of the expansion of the circulation of gold being presumably to stimulate trade throughout the world and thus to increase the demand for Indian produce), and that the latter operation is not within your power unless the Gold Standard Reserve is held in gold. I am not disposed to think that the release of such gold as might be held in the Gold Standard Reserve would have an important or speedy effect in creating a favourable balance of Indian trade; but, if it is to be held that this result would follow, it must equally be held that the previous accumulation of gold in the Gold Standard Reserve would, so long as it was proceeding, have an unfavourable effect on the Indian trade balance; and it would certainly injure India's power of borrowing in the London market.

11. In the two preceding paragraphs I have considered the objections urged against the present practice of holding the Reserve in securities. I have now to draw your attention to the financial gain which has resulted from this practice. The amount received up to date in this country from interest on securities and discount on Treasury Bills, less the loss consequent on the discounting of Treasury Bills before maturity, is 1,778,906*l*. The loss incurred through the sale of securities has been 146,852*l*. The net depreciation at present prices, as compared with the average cost price, of the securities now held is 260,991*l*. Thus in eight years there has been a net gain to the Gold Standard Reserve of 1,371,063*l*.

12. My conclusion regarding your second proposal is as follows:—In view of the pecuniary disadvantage of holding a part of the Gold Standard Reserve in gold, I do not see my way to adopting this proposal. But I am willing to meet your wishes to the extent of leaving 1,000,000*l*. of the Reserve uninvested. The part so treated will be either lent from time to time for short periods on approved security to approved institutions and firms or deposited at interest with Banks of high standing, the interest earned being credited to the Reserve. The remainder of the English portion of the Reserve will be dealt with as explained in paragraph 9 above. The transactions necessary to give effect to the decision regarding the 1,000,000*l*. that is not to be invested will be carried out gradually and you will be informed of them in due course.

I have, &c.,

(Signed) MORLEY OF BLACKBURN.

## Enclosure.

Foreign Trade of India (on private account) in each year from 1st November 1896 to 31st October 1908. Figures in millions of pounds sterling.

| | 1896-97. | 1897-98. | 1898-99. | 1899-1900. | 1900-01. | 1901-02. |
|---|---|---|---|---|---|---|
| MERCHANDISE :— | | | | | | |
| Exports | 64·58 | 73·93 | 73·67 | 69·36 | 78·94 | 83·70 |
| Imports | 43·79 | 45·74 | 48·40 | 46·92 | 55·13 | 52·73 |
| Net exports | 20·79 | 28·19 | 25·27 | 22·64 | 23·81 | 30·97 |
| GOLD :— | | | | | | |
| Net imports | 2·64 | 3·18 | 4·61 | 6·13 | 3·81 | 3·42 |
| SILVER :— | | | | | | |
| Net imports | 5·19 | 4·57 | 2·66 | ·94 | 2·45 | 5·25 |
| MERCHANDISE, GOLD AND SILVER :— | | | | | | |
| Net exports (+) or imports (−). | +12·96 | +20·44 | +18·00 | +15·57 | +17·55 | +22·30 |

| | 1902-03. | 1903-04. | 1904-05. | 1905-06. | 1906-07. | 1907-08. |
|---|---|---|---|---|---|---|
| MERCHANDISE :— | | | | | | |
| Exports | 94·51 | 104·01 | 106·47 | 111·23 | 129·27 | 99·53 |
| Imports | 54·05 | 61·36 | 66·07 | 72·19 | 79·05 | 87·42 |
| Net exports | 40·46 | 42·65 | 40·40 | 39·04 | 50·22 | 12·11 |
| GOLD :— | | | | | | |
| Net imports | 9·56 | 12·92 | 9·90 | 7·50 | 13·15 | 4·74 |
| SILVER :— | | | | | | |
| Net imports | 3·75 | 5·14 | 3·97 | 3·71 | 6·06 | 8·56 |
| MERCHANDISE, GOLD, AND SILVER :— | | | | | | |
| Net exports (+) or imports (−). | +27·15 | +24·39 | +26·53 | +27·83 | +31·01 | *—1·19* |

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 91, dated 13th August 1909.

MY LORD,

My attention has been called to the desirability of arranging for earlier and more frequent publication of information regarding the position of the Gold Standard Reserve. Under present arrangements two statements showing the position of the Reserve at the end of each quarter appear in the Gazette of India between two and three months after the end of the quarter. I suggest that, in addition, a statement in the same form as the second of those published in the Gazette of India for 19th June 1909 shall in future be issued in England and in India in the second week of each month showing the position of the Reserve at the end of the preceding month. I shall be glad to learn by telegram if you agree to this proposal. If you do, the first monthly publication might take place in September; and, in order that there may be no discrepancy between the information published in the two countries, I shall telegraph to the Comptroller-General at the beginning of that month a summary of the transactions that have taken place in

England in August. It will then be for the Comptroller-General to telegraph to me as soon as possible the following figures relating to the Reserve:—

(1) Opening balance 1st August.*
(2) Particulars of transactions, if any, in India during August.*
(3) Closing balance 31st August.
(4) Form in which Indian portion of Reserve is held on 31st August.

At the end of each subsequent month I shall telegraph to the Comptroller-General a summary of the transactions in England during the month, and the Comptroller-General should telegraph to me the particulars of additions made to the Reserve in India during the month and of any change in the form in which the Indian portion of the Reserve is held.

2. If the proposal made above is carried out, a copy of each monthly statement issued in England will be posted to the Comptroller-General immediately after publication, and a copy of each one issued in India should be similarly sent to this Office, in order that any accidental discrepancy may be discovered as soon as possible.

3. I take the opportunity of pointing out that the sum of 469,818*l.*, which forms item 3 of the second statement published in the Gazette of India for 19th June 1909, was not held in gold and should not have been so described. Any portion of the Reserve which may in future be left uninvested in accordance with the arrangements made in paragraph 12 of my Despatch of 2nd July 1909, No. 82 (Financial), will be described in the statements to be issued in this country as "Cash placed by the Secretary of State for India in Council at short notice."

I have, &c.
(Signed) MORLEY OF BLACKBURN.

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No. 236, dated 30th September 1909.

MY LORD,

WE have the honour to reply to your Despatch No. 82, Financial, dated the 2nd July 1909, in which you dealt with our proposals for the future administration of the Gold Standard Reserve.

2. In our despatch of the 1st April 1909, No. 87, we reviewed the experience of the preceding eighteen months and attempted to sum up the lessons to be learnt from the course of our operations in support of exchange. We showed that the main fact which had been brought into prominence by recent events was the inadequacy of our existing gold resources to meet a prolonged crisis. As a partial remedy for this state of affairs, and as a precaution against the occurrence of a more serious emergency in the future, we proposed for your Lordship's consideration two specific measures. We urged, firstly, that the practice, to which we have always objected, of expending on railways half the profits on coinage should be definitely abandoned, and that all such profits should in future be credited to the Gold Standard Reserve, until that Reserve should stand at a much higher figure than it has yet attained. We further pressed the desirability of holding a substantial part of the Reserve in gold. In our advocacy of both these measures, we had, as we pointed out in our despatch, the practically unanimous support of the mercantile and banking communities of India.

3. In reply to these representations, your Lordship has consented to suspend the diversion of coinage profits to railway construction until such time as the stock of gold in the Gold Standard Reserve and the Paper Currency Department combined shall reach the figure of 25,000,000*l.*; thereafter the question will be liable to reconsideration in the light of existing circumstances. Though this decision does not go by any means so far as we wished, we welcome it as a step in the direction which we have advocated.

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* Information under (1) and (2) is required not for publication, but to enable the figures prepared for publication to be verified.

4. On the second point your Lordship has not seen your way to accept our proposals. Holding that, for the purpose of maintaining exchange, securities capable of easy realisation are as efficient as liquid gold, while they are at the same time producing interest to the credit of the Gold Standard Reserve, you have declined to do more than keep a sum of 1,000,000*l.* of this Reserve uninvested, such amount being either lent from time to time for short periods, on approved security, to approved institutions and firms, or deposited at interest with banks of high standing. We accept this decision with regret. While we admit the force of your argument in normal circumstances, and recognise that existing arrangements adequately met the requirements of the late crisis, we would once more emphasise our conviction that it is necessary to provide, and to assure the public that we do provide, against a situation in which the securities of the Gold Standard Reserve would not be easily realisable or realisable only at heavy loss.

5. Accepting however, as we must, your decisions, we now desire to discuss the methods to be adopted, under present conditions, in meeting exchange difficulties in the future. Your Lordship has recognised the advisability of holding at least 25,000,000*l.* in gold and gold securities, and has represented the possibility, under the arrangements indicated in paragragh 6 of your despatch, of increasing this amount to as much as 30,000,000*l.*, exclusive of the gold securities held by the Paper Currency Department. The attainment of this figure involves, however, the reduction of the stock of rupees in the Paper Currency Reserve and the silver branch of the Gold Standard Reserve to fifteen and three crores respectively. You consider these amounts to constitute a sufficient minimum, but we must respectfully differ as to their adequacy.

6. We could not view without grave concern any diminution of the silver branch of the Gold Standard Reserve. Our currency position resembles that of an army exposed to sudden attack on either flank, and we have to provide for a drain upon our silver no less than upon our gold. Unlikely as it at present appears that there will be early need for an extensive coinage of rupees, the future developments of commerce are always uncertain, and we should be extremely loth to expose ourselves to any risk of a recurrence of the difficulties which in 1906 rendered the establishment of the silver branch a necessity. With the extension of the sovereign as a circulating medium, this risk will no doubt tend to diminish; but though, as we note below, there are promising signs of development in this direction, we can only expect very gradual progress; and a very large growth of such circulation would be necessary before the silver branch of the Gold Standard Reserve can safely be diminished. For the present, therefore, we desire to maintain this at the existing figure of six crores.

7. For similar reasons we are equally reluctant to substitute gold for the silver in the Paper Currency Reserve to the full extent that you propose. We consider that at present we cannot with safety hold less than one-half of our liquid currency balances in rupees, and, as we pointed out in paragraph 8 of our despatch No. 144, dated 26th April 1906, we ought to have a minimum of eighteen crores of rupees at the beginning of the busy season. As, however, the note circulation has recently expanded, this would, on present figures, give a total gold stock not much less than that assumed by your Lordship, the figures calculated with reference to the position on the 15th September last standing as follows:—

| | £ |
|---|---|
| Gold Standard Reserve on 15th September 1909 (approximate) | 18,635,900 |
| *Deduct* rupee holding | 4,000,000 |
| (*a*) Possible Sterling holding in Gold Standard Reserve | 14,635,900 |
| (*b*) Currency Gold in England | 1,500,000 |
| (*c*) Further possible Currency gold, *viz.*, half of currency balances on 15th September *minus* (*b*) | 11,441,200 |
| Total possible gold holding (exclusive of gold securities held by Paper Currency Department) | 27,577,100 |

These figures thus admit of a total Currency holding of about 13,000,000*l.* in liquid gold.

8. We now desire to impress upon your Lordship our firm conviction that the greater part of this sum should be held in India. It is true that in their despatch, No. 295, dated the 18th August 1904, Lord Ampthill's Government contemplated as sufficient a gold holding of between about 4,000,000*l.* and 6,000,000*l.* in India; but recent experience has compelled a modification of our views on this point. It is unnecessary to repeat here the arguments in favour of the establishment of an effective gold currency in this country. They were fully set forth in the report of the Fowler Currency Committee, to which our Gold Standard owes its existence, and their cogency has since that day been fully recognised. It is a truism that real stability of exchange can never be assured until gold attains an active and extensive circulation in India: the difficulty has hitherto lain in inducing a conservative people to adopt this form of currency. Shortly before the recent crisis, however, there were signs of encouraging progress in this direction. Though gold was still far from having obtained that popularity which the interests of exchange render desirable, there were indications of a greatly extended use of the sovereign in commercial transactions. It was estimated, for instance, by our Comptroller General that it might shortly be possible to finance in gold no less than 20 per cent. of the up-country cotton trade of Bombay. This promising development has naturally received a severe check as a result of recent events. To ensure a free use of sovereigns it is essential that we should be in a position to pass gold liberally out of Currency and Treasury in exchange for notes and silver, and in present circumstances this is impossible, for our operations in support of exchange have left us with an absolutely insignificant gold balance. We have information that sovereigns now change hands at a premium even in the chief commercial centres of the country, while for ordinary purposes they are practically unobtainable. We therefore judge it to be eminently desirable to increase the local gold holding in our Paper Currency Reserve. We could face another exchange crisis with far greater equanimity could we be assured both of an active circulation of sovereigns in the country and of a strong reserve in our Currency chest. The former would enable the ready export of superfluous currency, while the strength of our own reserve would enable us at once to assist this process and, by free issues of gold, to bring about that restoration of public confidence which is of vital importance in the early stages of a panic.

9. For these reasons we wish most emphatically to urge the desirability of holding a large amount of gold in the Currency Reserve *in India*. Of the total sum of about 13,000,000*l.*, which according to the figures given in paragraph 7, can be held in liquid gold against notes in circulation, we think that at least two-thirds should be available in this country. We should indeed prefer to hold more, but we recognise the necessity of leaving with you a liquid balance, to provide for any possible purchases of silver that may be required, and for use in the early stages of a struggle with exchange. With the sum of 1,000,000*l.* from the Gold Standard Reserve which you intend to keep readily available, you will thus have in London somewhat over 5,000,000*l.* in liquid form; and, in view of your opinion on the subject of the realisation of Gold Reserve securities, you will, we trust, consider this sufficient.

10. It is obviously desirable, in the light of the circumstances we have quoted, to lose no time in building up the gold resources of this country; and we have now to set forth the steps which should, in our opinion, be taken to effect this object. Up to the present, you have been able, by excess sales of Council Bills, to replace by gold rupees in the Gold Standard Reserve to the value of 2,800,000*l.*, as well as to draw against Treasury balances nearly 2,000,000*l.* more than the proportionate budget allotment of the current year (the figures are up to 31st August). Should the prospects of Indian trade continue favourable, there is reason to hope that it will prove possible, in spite of the present weakness of Exchange which has, lately, once more necessitated our offering Bills on London

to a small extent, but which will, we hope, prove to be of a purely temporary character, to draw off before very long the further sum of 3,800,000*l.* by which the Gold Standard silver exceeds the necessary minimum. When that position has been reached, we are of opinion that you should stay further drawings other than those required for ways and means purposes, for if further trade demand for money be genuine, the result must then be that gold will come out to us in India. This process should continue until the gold in our Currency Reserve in India has accumulated up to the amount we consider desirable to hold there, viz., two-thirds of one-half the total currency cash holdings, or in present circumstances about 8,600,000*l.* When that position has been attained, your Lordship would, if trade conditions seemed to require this, issue extra Council Bills against Currency until you too were in possession of your full portion of the gold which we desire to hold in the Currency Reserve. The drawing of Council Bills against fresh rupee coinage should not be considered until the full gold requirements of the Currency Reserve both in India and England have been satisfied.

11. The course which we propose to adopt in the event of the occurrence of future exchange difficulties of a serious character will thus be sufficiently obvious. In addition to the necessary step of selling sterling bills on London, we desire, if we have in the meantime succeeded in acquiring a sufficient store of gold, to issue sovereigns in exchange for silver. We shall thus work upon the depressed silver market with double effect. The sale of your Council Bills would, of course, have to be practically suspended for the time, and you would find such funds as are absolutely necessary for ways and means purposes in England by drawing first on your Currency gold and then on the Gold Standard Reserve. We trust that this plan of action will commend itself to your Lordship, though we must admit that our feeling of security would be considerably greater could we have the assurance that we possessed in the Gold Standard Reserve a sufficient stock of liquid gold to ensure the successful conduct of such operations over a prolonged period of depression.

12. In conclusion, we desire to emphasise the extreme desirability, in the interests of a stable exchange, of inspiring the public with confidence in the Currency policy of the Government. Such confidence can only be acquired by placing them in possession of the methods we propose to use in order to face difficulties, and we accordingly ask permission to publish our correspondence with you on the subject.

We have, &c.

(Signed) MINTO.
O'MOORE CREAGH.
J. O. MILLER.
W. L. HARVEY.
G. FLEETWOOD WILSON.
S. P. SINHA.
H. H. RISLEY.

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 25, dated 18th February 1910.

MY LORD,

I have considered in Council your letter of 30th September 1909, No. 236, containing an expression of your views regarding—

(1) The amount of rupees that should be held in the Gold Standard Reserve and the Paper Currency Reserve;

(2) The location of such gold as may from time to time be held in the Paper Currency Reserve;

(3) The procedure to be followed for building up sterling resources for the support of exchange.

2. Your observations on the first of these questions are contained in paragraphs 6 and 7 of your Letter under reply. I thought it desirable that the whole matter should be examined somewhat more fully than is done there or has been done on any previous occasion, and the enclosed Memorandum has accordingly been prepared. I shall be glad if you will give to it your careful consideration, and furnish me with an expression of your opinion as to the suggestions contained therein.

3. On the second question your recommendations are:—

(1) That the stock of gold in the Paper Currency Reserve in India should, as soon as possible, be raised to, and if practicable maintained at, an amount equal to two-thirds of the total that can be held in gold in the Reserve. The estimate which you adopt of the total holding of gold that is at present possible is, approximately, 13,000,000*l.*, so that the level to which you recommend that the stock in India should be raised is 8,666,000*l.* (These figures might be increased if the suggestions in the Memorandum mentioned in the preceding paragraph were adopted.)

(2) That until the gold in the Paper Currency Reserve in India reaches the level that you recommend, no increase should be made in the amount of gold held in the Paper Currency Reserve in England.

These recommendations evidently rest on the view that it is much more advantageous to increase the stock of gold held by the Government in India than to increase that which is held in the Paper Currency Reserve in England. It is, however, a matter of no small difficulty to compare the advantages of the two courses.

Gold held by the Government in India may be issued for export, or to be used as currency, or to be hoarded, or to be converted into ornaments. So far as it is issued for export, it may be regarded as fully effective for the support of exchange. So far as it is used as currency, it may be regarded as available wholly or in part for supporting exchange when the rate of exchange falls as low as gold export point, since it is probable that in such conditions a part at least of the amount in circulation would be exported; but when the rate falls, not as low as to gold export point, but to a figure at which it is desirable to suspend the sale of Council Bills, the gold in circulation is likely to be of little or no use for supporting exchange, at any rate immediately, since it would probably not be exported, and would obviously not be available towards defraying the Home Charges of the Secretary of State. Gold that is hoarded or converted into ornaments can scarcely be regarded as available at all for the support of exchange.

On the other hand gold held in England is available for supporting exchange not only when the rate falls to gold export point (when it can be used for meeting bills on London sold in India), but also at the earlier stage when the rate has fallen only to the point at which the suspension of Council Bills is desirable (when it can be used towards defraying the Home Charges). The stock is not liable to be depleted by any cause corresponding to the disappearance into hoards of gold in India. When the demand for remittances is strong, gold in England is available for any purchase of silver that may become necessary.

Thus the stocks of gold held in the two countries serve somewhat different purposes, and the practical conclusion that I draw is that it is desirable to hold, if possible, a substantial amount in each country. I am, therefore, unwilling to commit myself to a postponement of any increase of the stock in England for the comparatively long period that may be required for raising the stock in India to two-thirds of the possible total holding in the Paper Currency Reserve. As the stock of gold held by you now exceeds 5,000,000*l.*, I propose to revive shortly the arrangements which were in force in 1905, 1906, and 1907 for the purchase of gold in transit to England.

4. In paragraph 10 of your Letter you describe the method which should, in your opinion, be adopted with a view to building up the sterling resources of the Secretary of State and the Government of India. If I understand

your proposals correctly, you suggest that in the first place the silver in the Gold Standard Reserve in excess of six crores should, as opportunity presents itself, be replaced by sterling; that when this has been done the drawings of the Secretary of State should be limited to the amount required for ways and means purposes; that when these requirements have been met, the drawings should be suspended until the gold in the Paper Currency Reserve in India is raised to the sum decided upon; and that, when the stock of gold in the Paper Currency Reserve in India has been raised to the desired level, the sale of Council Bills should be resumed, but only against the transfer of gold to the Paper Currency Reserve in this country. You recommend also that the drawing of Council Bills against fresh rupee coinage should not be considered until the rupees in the Gold Standard Reserve have been reduced to six crores and the gold in the Paper Currency Department in India and England has been raised to the full amount that is desired.

I presume that you recognise that, if the procedure that you recommend were approved, its adoption would, or might, extend over a series of years, since, if the drawing off of surplus rupees from the silver branch of the Gold Standard Reserve and the raising of the gold in the Paper Currency Reserve to the desired level were not completed at the end of the financial year in which these processes were begun, the resumption of the sale of Council Bills in the ordinary manner would be necessary at the beginning of the next financial year in order to provide for the requirements of the Home Treasury in that year, and the special procedure which you recommend could only be revived late in the year when these requirements had been met. Thus the Secretary of State might continue for a number of years to sell Council Bills and Transfers in the ordinary manner during the earlier months of each year, sales in the latter months being either suspended altogether (if the stock of gold in India was below the desired level) or (if that level had been reached and was being maintained) effected only against the "ear-marking" of gold in London.

I am unable, after the most careful consideration, to accept the view that it is desirable to regulate the sale of Council Bills and Transfers in the manner that you propose.

In the first place, experience shows that the rigid procedure that you recommend is unnecessary for the building up of the sterling branch of the Gold Standard Reserve and the stock of gold in the Paper Currency Department, since without it the sterling branch of the Gold Standard Reserve has in the past been raised to the full amount of the Reserve (less the portion held, for reasons of policy, in rupees), while the stock of gold in the Paper Currency Reserve has from time to time risen not only to a sufficient, but even to an excessive, height.

Secondly, I am of opinion that to carry out your recommendations consistently might at times involve very serious consequences. To refuse at certain times of the year to issue rupees for trade purposes except against gold presented in India or "ear-marked" in London, might cause the periodical recurrence of stringency in the London money market, by which the Secretary of State for India in Council—owing to the frequency and magnitude of his operations in issuing and renewing loans (either direct or through guaranteed railway companies) is peculiarly liable to be injured; and by which it is also probable that the trade of India with other countries would be seriously affected.

5. It seems to me to be clear that in a year of great demand for remittances to India the right course to be pursued in selling and meeting Council Bills and Telegraphic Transfers is as follows:—

(*a*) The sales to be regulated in such manner as appears likely to stimulate the transmission of gold to India when such transmission is desirable, which is, of course, ordinarily not the case in any year until the sums required by the Secretary of State for the purposes of the Home Treasury and for converting into sterling the excess, if any, of the Gold Standard Reserve, over six crores have been received or practically assured; but the sales not to be suspended at any particular time for the purpose of forcing gold into the Paper Currency Reserve.

(*b*) Bills and Transfers, if any, which are sold beyond the requirements of the Secretary of State (for the purposes mentioned in (*a*) ) to be met in one or more of the following methods, viz. :—

From the Treasury balances of the Government of India; or from the silver portion of the Paper Currency Reserve (against the "ear-marking" of gold in London); or from the silver branch of the Gold Standard Reserve (the use of rupees from this Reserve being treated either as a loan to be repaid in India, or as a reduction to be made good by an increase in the sterling branch of the Reserve).

(*c*) The choice between the methods mentioned in (*b*) to be made according to the circumstances of the time.

I may add that I am entirely of the opinion, which evidently underlies the last sentence of paragraph 10 of your Letter, that the coinage of new rupees should be limited as closely as possible.

6. I am unable to accept the suggestion made in paragraph 11 of your Letter that your correspondence with me on the subjects discussed above (by which I understand you to mean your Letter of 1st April 1909, No. 87, my Despatch of 2nd July 1909, No. 82, your Letter under reply, and the present Despatch) shall be published, but I have no objection to your making public, should you think it desirable, the substance of the following decisions contained in the correspondence, viz., those communicated to you in the last sentence of paragraph 5 of my Despatch No. 82 of 2nd July 1909, and in the second sentence of paragraph 12 of that Despatch. You will, of course, understand that no public announcement should be made regarding the question of the purchase of silver, which is discussed in the Memorandum appended to this Despatch.

I have, &c.,
(Signed) MORLEY OF BLACKBURN.

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Enclosure.

MEMORANDUM of the amount to be held in RUPEES in the PAPER CURRENCY RESERVE and the GOLD STANDARD RESERVE.

1. The question of the amount that should be held in rupees in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve is not one on which a decision is now called for by any practical need of the moment. A telegram from the Government of India, dated 12th February 1910, shows that in addition to the rupees in the Treasury balances, the Government holds 2,850 lakhs of rupees and about 12 lakhs of tolas of silver bullion in the Paper Currency Department and 718 lakhs of rupees in the Gold Standard Reserve. During the busy season of 1909–10 and of 1910–11 (if the monsoon of 1910 is favourable) these amounts will no doubt be reduced, partly by the substitution of gold for rupees in the Paper Currency Reserve, and partly by the substitution of sterling investments for a portion of the silver branch of the Gold Standard Reserve; but it is unlikely that either the Secretary of State or the Government of India will propose before 1911 at earliest to buy silver for the purpose of replenishing either reserve by means of additional coinage. Whenever such a proposal is made, the question at the beginning of this note will become one of great and immediate practical importance; for the answer to it will necessarily govern the decision as to the time at which, and the scale on which, the purchase of silver shall be undertaken.

The question is far from easy; and, whatever estimate may be formed and used at any time as the basis of a practical decision regarding the level at which the stock of rupees in the two Reserves shall be kept, there must always be the possibility that subsequent events will so shape themselves as to show that a different decision would have been more beneficial. If a liberal view of the requirements of the two Reserves is taken and large amounts of silver are bought and coined, trade may immediately fall off and exchange decline, rupees in the Reserves may for a long period be practically useless, and the temporary loss of the sterling resources with which they

were purchased may be a serious misfortune. If, on the other hand, the more restrictive view is acted on, and the stock of rupees kept low, a sudden outburst of great trade activity may expose the Government of India to embarrassment in its attempt to cope with the demand for currency. This difficulty is one which can never be avoided. But it is obviously better to consider at leisure the important question involved than to leave it until a practical decision is urgently required. It is therefore proposed to examine now the views expressed by the Government of India in paragraphs 5 to 7 of their Letter, No. 236 (Finance), dated 30th September 1909.

2. The Government of India are of opinion--

That the silver branch of the Gold Standard Reserve should not be allowed to fall below six crores, and

That they cannot at present safely hold (presumably at any period during the year) less than half of the metallic portion of the Paper Currency Reserve in rupees, and that they should have a minimum of 18 crores at the beginning of the busy season.

If the practical effect of these suggestions is examined in the light of the fact that the normal volume of the Paper Currency circulation will in all probability soon be about 50 crores, with a metallic reserve of 38 crores, it will be found (*a*) that the suggestions do not really discriminate, though they do so in appearance, between the requirements of different periods of the year, and (*b*), that, if they were carried out, the stock of rupees in the Paper Currency Department, and the percentage to the Paper Currency circulation, would (unless the total circulation is materially reduced or the fiduciary portion increased) be much higher during a part of the year than has been found necessary in recent years. These points will be dealt with separately.

(*a*) In any estimate of the amount that should be held in rupees in the various reserves it appears to be absolutely necessary to discriminate between the requirements of the various periods of the year. There is, in normal years, a net absorption of rupees into the circulation for which the Government must provide in some way or other; but the absorption proceeds at different rates of speed at different seasons, and there is often during certain months a return of rupees from circulation. The period of most rapid absorption is usually from October to December, when the Government cannot rely on the outturn of the mints to keep pace with the demand for rupees. The return of rupees from circulation is most frequent in the quarter from April to June. It is therefore evident that, if the safe minimum holding of rupees on 1st October is represented by a particular figure, the possession of a smaller amount on 1st April will ordinarily suffice. The appropriate amount of the difference between the two figures will be discussed later. Meanwhile, it is important to observe that, if the suggestion of the Government of India were carried out, the reserve of rupees held against the Paper Currency would, if the note circulation stands at 50 crores and the fiduciary issue at 12, be not less than 19 crores all the year round; and the additional condition purporting to require a minimum of 18 crores at the beginning of the busy season would be unnecessary.

(*b*) The effect of keeping in rupees all the year round at least half the metallic portion of the Paper Currency Reserve, and also 6 crores belonging to the Gold Standard Reserve would be, assuming a gross circulation of 50 crores and a fiduciary issue of 12 crores, that the amount of rupees (19 crores) to be kept in the Paper Currency Reserve would be 38 per cent. of the gross circulation, and that 25 crores in all would be held in rupees outside the Treasury balances. Whether so large a holding is at any time necessary is open to question; but it seems quite certain that it is in excess of what is required at the end of the busy season, say, on the 31st of March of each year, as is shown by the following statement relating to the rupees and silver bullion that were held

in the Paper Currency Reserve and in the Gold Standard Reserve on 31st March of each year from 1900 to 1909 :—

| 1. Date. | 2. Gross Circulation of Currency Notes. | 3. Silver Coin in Paper Currency Reserve. | 4. Percentage of Silver Coin in Paper Currency Reserve to Gross Circulation. | 5. Silver Bullion in Paper Currency Reserve and in Transit. | 6. Rupees in Gold Standard Reserve. | 7. Total Rupees in Paper Currency Reserve and Gold Standard Reserve (counting 1 tola of Bullion as 1 Rupee). | 8. Proportion of Total in Column 7 to Gross Circulation of Currency Notes (Column 2). |
|---|---|---|---|---|---|---|---|
| | Lakhs. | Lakhs. | Per cent. | Lakhs of tolas* (approximately). | Lakhs. | Lakhs. | Per cent. |
| 31st March 1900. | 28,74 | 5,24 | 18·2 | — | — | 5,24 | 18·2 |
| „ 1901 | 29,87 | 9,42 | 31·5 | 2,67 | — | 12,09 | 40·5 |
| „ 1902 | 31,66 | 11,13 | 35·1 | — | — | 11,13 | 35·1 |
| „ 1903 | 35,72 | 10,93 | 30·6 | — | — | 10,93 | 30·6 |
| „ 1904 | 38,21 | 11,50 | 30·1 | 80 | — | 12,30 | 32·2 |
| „ 1905 | 39,18 | 11,36 | 29·0 | 2,55 | — | 13,91 | 35·5 |
| „ 1906 | 44,66 | 13,58 | 30·4 | 1,52 | — | 15,10 | 33·7 |
| „ 1907 | 46,95 | 13,72 | 29·2 | 7,81 | 6,00 | 27,53 | 58·6 |
| „ 1908 | 46,89 | 25,18 | 53·7 | 12 | 6,00 | 31,39 | 66·9 |
| „ 1909 | 45,49 | 31,12 | 68·4 | 12 | 15,88 | 47,12 | 103·6 |
| Proposals of Government of India (taking gross circulation at 50 crores and fiduciary issue at 12 crores) - - | 50,00 | 19,00 | 38·0 | — | 6,00 | 25,00 | 50·0 |

* The Paper Currency Reports show the cost price of silver bullion held in the Reserve; and it has been assumed for the purpose of the present Statement that each hundred rupees' worth of silver bullion represents 150 tolas from which 150 rupees can be coined.

In dealing with these figures the particulars relating to 31st March 1907, 1908, and 1909, may be left out of consideration as belonging to a period at which the stock of rupees was admittedly excessive. At the other seven dates the total amount of silver held in the Paper Currency and Gold Standard Reserves, the proportion of coin in the former reserve to the note circulation, and the proportion of the silver in both reserves to the note circulation were all considerably lower than would probably result from the adoption of the present proposals of the Government of India; and yet there is no reason to believe that, except at the first date, the available stock of rupees or of rupees and bullion combined was found to be inconveniently low. Such inconvenience as has from time to time arisen since 1900 owing to a deficiency of rupees has been felt during the busy season, and (as is shown at the end of paragraph 3) in consequence of the stock of coined and uncoined silver at the beginning of that season having been allowed to fall too low. It is most important to guard against its recurrence, but it is not necessary or desirable for that purpose to maintain an excessive stock of rupees at a different period of the year when entirely different conditions prevail.

3. It is evident that the problem under consideration must be approached in a somewhat different manner from that which has been adopted by the Government of India, so that proper allowance may be made for the varying conditions of different periods of the year, and the best procedure appears to be to attempt to estimate—

(*a*) The amount of rupees that should be held in the two reserves on the 31st March of each year, which may be regarded as (approximately) the end of the period of most rapid absorption, and the beginning of the period during which a return of rupees from circulation is least unlikely.

(*b*) The additional amount that should be held on 1st October of each year in order to provide in advance for the demands of the period of most rapid absorption.

Any agreement that might be reached on these two points would be of very great value for regulating the purchase and coinage of silver throughout the year. The following suggestions are accordingly submitted :—

(*a*) *Rupees to be held on 31st March of each year.*—The figures in the table above appear to indicate that a stock of rupees in the two reserves equal to 35 per cent. of the gross currency note circulation (*i.e.*, 17½ crores when the gross circulation is 50 crores) is as much as prudence requires. It may be assumed that no large stock of silver bullion will be held otherwise than temporarily, so that silver bullion in the Paper Currency Reserve may be treated as the equivalent of rupees at the rate of 1 tola = 1 rupee. The distribution of the stock of rupees between the two reserves, and the use to be made of the holding in the silver branch of the Gold Standard Reserve, are considered in paragraphs 4, 5, and 6 below.

(*b*) *Additional amount to be held on 1st October of each year.*—In fixing this amount, the factors that have to be borne in mind are (1) the amount of possible absorption of rupees into the circulation during the busy season ; (2) the extent to which it may be reasonably estimated that the mints will be able to coin new rupees during the busy season towards meeting the absorption.

(1) *Amount of possible absorption during busy season.*—The best *data* for valuing the first factor appear to be the figures which are given in the annual Reports of the Paper Currency Department of the net absorption of rupees into the circulation (or return of rupees from the circulation) in each quarter of each year. The figures for the period 1898–99 to 1908–09 are collected in the following table :—

Net absorption of rupees into circulation (+) or return of rupees from circulation (−).

| Year. | April to June. | July to September. | October to December. | January to March. | Whole year. |
|---|---|---|---|---|---|
| | Lakhs. | Lakhs. | Lakhs. | Lakhs. | Lakhs. |
| 1898–99 | − 21 | − 48 | + 1,62 | − 2,54 | − 1,61 |
| 1899–1900 | − 64 | + 4,46 | + 7,84 | + 2,27 | + 13,93 |
| 1900–01 | + 1,00 | + 5,06 | + 4,13 | − 1,57 | + 8,62 |
| 1901–02 | − 63 | + 41 | + 1,74 | − 2,20 | − 68 |
| 1902–03 | − 3,26 | − 72 | + 3,13 | + 87 | + 2 |
| 1903–04 | + 1,34 | + 2,54 | + 6,10 | + 99 | + 10,97 |
| 1904–05 | + 37 | + 3,31 | + 3,92 | − 17 | + 7,43 |
| 1905–06 | − 1,16 | + 3,39 | + 11,39 | + 88 | + 14,50 |
| 1906–07 | − 24 | + 6,00 | + 10,68 | + 1,56 | + 18,00 |
| 1907–08 | + 1,82 | + 1,45 | + 7,35 | − 6,70 | + 3,92 |
| 1908–09 | − 7,98 | − 7,18 | + 3,39 | − 3,11 | − 14,88 |

These figures suggest that the following estimates fairly represent the maximum absorption during the busy season that need be allowed for, viz. :—

| | Lakhs. |
|---|---|
| October to December | 11,50 |
| January to March | 2,50 |

(2) *Coinage during the busy season.*—The portion of this absorption that it is reasonable to expect to be able to meet by new coinage during the busy season may be estimated as follows :—It is understood that the Calcutta and Bombay mints together can coin the following amounts of rupees per month (in addition to small silver and copper coin), viz. :—

| | |
|---|---|
| With overtime | 4½ crores. |
| Without overtime | 2¼ crores. |

It would thus be possible, if a sufficient supply of bullion were available, to coin in each quarter of the busy season enough new rupees to provide for absorption to the full extent

shown above. But allowance must be made for the probability that new coinage in the busy season would not be taken in hand until some time after the season had begun; and it is therefore perhaps not safe to estimate at more than 5 crores the coinage that would take place, even in a very busy year, during the October to December quarter. It may be assumed that in the quarter from January to March it would be possible to coin enough rupees to keep pace with the absorption during that quarter.

Thus the depletion in the busy season for which provision should be made in advance may be estimated as follows:—

| | October to December. | January to March. |
|---|---|---|
| | Crores. | Crores. |
| Absorption - - - - | 11½ | 2½ |
| *Deduct* new coinage - - | 5 | 2½ |
| Depletion - - - | 6½ | Nil. |

On this basis the additional amount to be held on 1st October would be 6½ crores and the total amount would be 17½ + 6½ = 24 crores. Past experience seems to show that this amount is likely to be sufficient, for difficulty is not known to have arisen in meeting the public demand for rupees except in 1900–01, 1903–4 (*see* Letter from Government of India, No. 121, dated 28th April 1904). and 1905–06 (*see* Letter from Government of India, No. 144, dated 26th April 1906), in which years the silver branch of the Gold Standard Reserve did not exist, and the only stock of rupees and silver bullion outside the Treasury balances was that which was held in the Paper Currency Reserve, amounting at the commencement of the busy season in the years mentioned to the following sums:—

| | Silver Coin. | Silver Bullion. | Total. |
|---|---|---|---|
| | Lakhs of Rupees. | Lakhs of Tolas. | Lakhs. |
| 30th September 1900 - - | 5,33 | — | 5,33 |
| 30th September 1903 - - | 10,69 | — | 10,69 |
| 30th September 1905 - - | 13,07 | 280 (approximately). | 15,87 |

There is no reason to believe that difficulties would have arisen if a stock of rupees, or of rupees and silver bullion combined, calculated in the manner now proposed, had been held at the beginning of the busy season in the years mentioned.

4. If it is provisionally assumed that (in the absence of any material increase in the gross circulation of currency notes) adequate provision will be made for satisfying the demand for rupees in India by preventing the stock of rupees in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve from falling below 24 crores on the 1st of October of any year, or 17½ crores on the 31st of March, the next point to be considered is the distribution of these totals as between the two reserves. In his Despatch of 2nd July, 1909, No. 82 (Financial), the Secretary of State suggested that the holding of rupees in the silver branch of the Gold Standard Reserve should be reduced from six to three crores; but the Government of India, in their Letter of 30th September 1909, No. 236, state that they could not view the proposed diminution "without grave concern." It must be admitted that, when once an agreement has been reached as to the total to be held in the two Reserves, the retention of a comparatively large portion in the silver branch of the Gold Standard Reserve will be advantageous for the following reason:—Rupees cannot be taken from the Paper Currency Reserve except against the payment of gold to it (in England or India), or against the cancellation of notes, all of which courses may, at

certain times, present great difficulty. On the other hand, rupees can be taken from the silver branch of the Gold Standard Reserve, either by way of temporary loan, or against an addition of cash or securities to the portion of the Gold Standard Reserve held in England. For this reason circumstances may arise in the future, and, indeed, they have not been unknown in the past, in which it is very useful to have the option of drawing on the Gold Standard Reserve rather than on the Paper Currency Reserve for the purpose of meeting a demand for rupees. It therefore appears to be wise to accept the preference of the Government of India for continuing to regard six crores as the normal holding of rupees to be retained in the silver branch of the Gold Standard Reserve.

5. But, if this is to be done, it is most desirable to come to an understanding regarding the methods of repaying any loan that may be taken from the silver branch of the Gold Standard Reserve; and for this purpose it will be well to reconsider a decision that was reached in 1907. In 1906–07 a large loan of the kind in question was taken; it was not convenient to repay it from the Treasury balances of the Government of India or by a transfer of rupees from the Paper Currency Reserve against the "ear-marking" of gold in England; the idea of repaying it (temporarily at least) by means of the addition of securities to the English portion of the Gold Standard Reserve was mentioned in correspondence between the Secretary of State and the Government of India but was not adopted; it was decided instead to purchase and coin silver in order that the repayment might be effected in India; and very large purchases of silver were made early in 1907 for this purpose. One consequence was that the rupees and bullion held in India rose on 31st March 1907 to a level far beyond the requirements of the Government of India. It is easy to see in the light of subsequent events that the better course would have been to allow the rupee portion of the Gold Standard Reserve to remain, for a time at least, below 600 lakhs (so long as it was not practicable to replenish it by transfers of rupees from the Paper Currency Department against the "ear-marking" of gold in England) and to add (temporarily if necessary) to the sterling portion of the Reserve, in the form either of cash or of securities, the money that was actually spent on buying silver for the rupee portion. The purchases of silver in 1907 would thus have been smaller, and the Secretary of State would have been in a stronger position for dealing with the exchange troubles of 1907 and 1908. The Government of India were at one time (*see* their telegram of 20th December 1906) in favour of this course; but in the latter part of paragraph 2 of their Letter of 21st February 1907, No. 66, they expressed strong objections to its adoption on any future occasion, and the Secretary of State yielded to their objections, though (as will be seen from paragraph 9 of his Despatch of 26th April 1907, No. 62, Financial), he did not regard their arguments as convincing. It may be hoped that they will now agree that on any occasion on which a loan is to be repaid to the silver branch of the Gold Standard Reserve at a time when the combined stock of rupees in that Reserve and the Paper Currency Reserve is as high as is required according to the calculations above (or any other calculations that may be adopted in their stead).

(1) The repayment ought not to be made by means of the purchase and coinage of additional silver, and

(2) That, if there are serious difficulties in the way of making the repayment from the Treasury balances of the Government of India or by a transfer of rupees from the Paper Currency Reserve against the "ear-marking" of gold in England, there is no objection to having recourse instead to a temporary addition to the cash or securities of the sterling branch of the Gold Standard Reserve.

6. If the views set forth above are accepted by the Government of India, the considerations by which the purchase of silver for coinage will be regulated, subject to such modifications as further experience may suggest or a material change in the volume of the Currency Note circulation may require, may be summarised as follows:—

(1) Not less than 24 crores of rupees will be held in India on the 1st of October in each year in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve, six being held, if

possible, in the silver branch of the Gold Standard Reserve, and 18 in the Paper Currency Reserve. Silver bullion in the Paper Currency Reserve will be regarded as the equivalent of rupees at the rate of one tola = 1 rupee.

(2) During the six months from October to March silver will be bought and coined to the extent estimated to be sufficient to prevent the stock of rupees in the two Reserves from falling below 17½ crores on 31st March.

(3) During the six months from April to September silver will be bought and coined as far as appears necessary in order that the reserve of 24 crores mentioned in (1) above may be attained by 1st October; but the purchase of silver will proceed gradually so that it may be discontinued if, during the six months, rupees return from circulation to such an extent as to render it probable that the level prescribed for the 1st October will be obtained without further coinage.

(4) If it appears likely that the stock of rupees in the Paper Currency Reserve will, owing to the return of rupees from circulation, exceed 18 crores on 1st October or 11½ crores on 31st March, but that the stock in the silver branch of the Gold Standard Reserve will be less than 6 crores, silver will not be purchased beyond what appears necessary in order to provide the combined reserve of 24 crores on the former date or 17½ on the latter; and any deficiency in the silver branch of the Gold Standard Reserve will be made good in due course either (*a*) by a transfer of rupees from the Paper Currency Reserve against either the cancellation of notes in the Treasury balances or the "ear-marking" of gold in England, or (*b*) by an addition to the sterling branch of the Gold Standard Reserve in England.

7. It will be noticed that all the calculations in this Memorandum are based on the figures relating to the silver portion of the Paper Currency and Gold Standard Reserves, the stock of rupees in the Treasuries being left out of account. This procedure is in accordance with the practice of the Government of India, and is probably the most convenient. If the Government of India wish to take account of the Treasury rupees in any calculations made for the purpose of regulating the purchases of silver, the figures above, and perhaps the general scheme of the calculations, must be modified.

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No. 163, dated 6th July 1911.

MY LORD MARQUIS,

We have the honour to forward for your Lordship's information extracts from an address recently presented to His Excellency the Viceroy by the Karachi Chamber of Commerce and His Excellency's reply to the Chamber.

2. The Chamber made three suggestions: (1) that a substantial portion of the Gold Standard Reserve should be held in liquid gold, (2) that this gold should be kept in India, and (3) that the nature, objects, and management of the Gold Standard Reserve should be defined by statute.

3. His Excellency the Viceroy undertook to convey these suggestions to your Lordship, and we now submit them for your consideration. The question of the constitution of the Gold Standard Reserve was recently the subject of correspondence between the Government of India and the Secretary of State, and the latest orders on the subject are contained in Lord Morley's Despatch No. 82, Financial, dated the 2nd July 1909. We have considered the subject again in connection with this address but, though our

views are substantially in agreement with those of the Chamber, we consider it inexpedient to ask at present for any modification of the latest decision, and we are therefore unable to support the Chamber's proposals.

We have, &c.

(Signed) HARDINGE OF PENSHURST.
O'M. CREAGH.
G. FLEETWOOD WILSON.
J. L. JENKINS.
R. W. CARLYLE.
S. H. BUTLER.
SYED ALI IMAM.
W. H. CLARK.

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Enclosure No. 1.

Extract from an ADDRESS presented to HIS EXCELLENCY THE VICEROY by the KARACHI CHAMBER OF COMMERCE.

On the subject of India's Gold Standard Reserve, the Chamber are strongly of opinion that the interests of this Dependency would best be served by the retention of a substantial portion of the Reserve, in gold, in India. The Chamber think that this end could best be accomplished by defining the nature, objects, and management of the Gold Standard Reserve by Statute. We respectfully beg, therefore, that Your Excellency's Government will give this most important question their early consideration.

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Enclosure No. 2.

Extract from HIS EXCELLENCY THE VICEROY'S reply to the ADDRESS from the KARACHI CHAMBER OF COMMERCE.

You have referred to the question of the retention of a substantial portion of the Gold Standard Reserve in gold in India. It is a complicated matter of great importance, and I have to thank you for bringing the subject to my notice. I find that it has been under the most anxious consideration, more than once, between the Government of India and the Secretary of State, without whose concurrence it would be obviously impossible to make any change in the existing arrangements; but I shall be glad to convey the opinion to which you have just given expression to Lord Morley.

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No. 48, dated 29th February 1912.

MY LORD MARQUIS,

IN Lord Morley's despatch No. 25, Financial, dated the 18th February 1910, the views of the Secretary of State in Council were communicated upon certain questions connected with—

(*a*) the procedure to be followed in building up the sterling reserves of the Indian Government;
(*b*) The amount of gold that may appropriately be held in the Paper Currency Reserve; and
(*c*) the distribution of this gold between the Currency chest in England and in India

His Lordship at the same time forwarded to us, and invited an expression of our views upon, a "memorandum on the amount to be held in rupees in the Paper Currency Reserve and the Gold Standard Reserve." These questions were, in the main, incidents of the larger issue of the adequacy of our gold reserves, which had been discussed in an earlier letter* from the Government of India. As the subject is one on which all fresh experience is of value, and as Lord Morley's despatch did not seem to call for an immediate reply, we deferred a further statement of our views until we had time to study the direction and the effect of certain new developments in our currency system. The situation has become clearer and more instructive since this interchange of views began in 1909.

2. It will make our present position simpler if we arrive at it by a brief review of the discussion that has taken place, avoiding reference to unessential issues as well as to mistakes which have been made and rectified. When we wrote in April 1909, the hard fact which dominated the situation, apart from all theory or speculation, was the grave loss which our gold reserve had suffered in 1908. The economic sequels of a famine in India —a famine by no means so widespread or protracted as many of its predecessors—coupled with a depression in international trade, had resulted in reducing our reserves of gold and gold securities from 24½ millions to 9½ millions in little over a year. Fortunately, the tide then turned; but the lessons which we had learnt were that our reserves were perilously weak, and that the form in which they are held was open to considerable danger. Those views were shared by the mercantile and banking community in India; and the momentous issue involved justified us in pressing them with all earnestness on the Secretary of State.

3. It was thus in no academic or controversial spirit that we urged on Lord Morley the high importance of aiming at a stronger reserve than we had previously possessed, and the desirability of keeping a larger portion of the reserve liquid, uninvested and ready for immediate use in support of a weakening exchange. Our specific proposals were (1) that the Gold Standard Reserve should be built up from accruing interest and the profits on rupee coinage, without any diversion whatsoever to other purposes, until it reached a total of 25,000,000*l.*; and (2) that a substantial part of the reserve should be kept in sovereigns, to be held under as nearly as possible the same conditions as the Paper Currency gold which is "earmarked" in the Bank of England. We took the opportunity of inviting attention to the strong feeling that exists in favour of locating the reserve or a part of it in this country. Lord Morley's reply adopted a somewhat different view of the position and of the lessons to be drawn from it. He considered 25,000,000*l.* to be an exaggerated estimate of the "limit of safety" if applied to the Gold Standard Reserve alone, and he alluded to the disadvantages of locking up funds which might be profitably employed for the industrial development of India. He refused to see any danger in the cautious investment of the reserve, and he rejected several of our subsidiary arguments for keeping any large portion of the reserve in specie. His decision was (1) that our accumulation of gold need not exceed 25,000,000*l.* as an aggregate total for the sterling assets of the Gold Standard Reserve combined with the gold in the Paper Currency Reserve; and (2) that only 1,000,000*l.* of the Gold Standard Reserve need be kept uninvested, though even this amount would be available for short loans in the London market.

4. In a subsequent letter† Lord Minto's Government accepted these orders with regret and suggested means for working them in such a manner as to strengthen the supply of gold in our Paper Currency Department in India. The discussion then branched off into the advantages of holding gold in India for internal use, and proposals were made that the sale of Council Bills should be so regulated as to promote a freer flow of sovereigns into this country. In the letter now under reply, Lord Morley rejoined by

* Despatch from the Government of India, No. 89, dated the 1st April 1909, page 168.

† Despatch from the Government of India, No. 236, dated the 30th September 1909, page 182.

discriminating between the uses of Government holdings of gold in England and in India. His conclusion was that we may with advantage hold a substantial—but apparently a strictly limited—supply against the Paper Currency in this country. He refused, however, to manipulate the sales of Council Bills for this purpose, and laid down certain general principles to be observed in selling and meeting Council Bills in a year of active trade remittances.

5. Before we examine the various points which emerge from this review of the correspondence, and which we have stated with all possible brevity, it will be convenient to touch upon the Memorandum which accompanied your predecessor's despatch of the 18th February 1910. The Memorandum embodies a calculation of the amount of rupees which safety demands that we should hold in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve combined, at different seasons of the year. We may note at the outset one slight correction which the Memorandum requires. In paragraph 7 it is stated that the calculations throughout ignore the stock of rupees in our treasuries, whereas we find that the table of "net absorption" near the top of the fourth page takes the treasury figures into account. We should also wish to see the Memorandum amended on a point of history. Paragraph 5 suggests that our objections in 1906–07 to the depletion of the silver branch of the Gold Standard Reserve led to unnecessary purchases of silver. We must altogether demur to this statement of the case. The facts are that in the busy season of 1906–07 there was an exceptionally heavy rush for remittances; the Bank of Bengal rate stood for several months at 9 per cent.; and we were quite unable to meet the Secretary of State's drawings from our Treasury balances. At the same time we had a sufficiency of rupees and bullion in the Paper Currency Department; and we begged the Secretary of State to help us by "earmarking" part of the gold that he obtained from the sale of his bills so as to let us release currency silver. In place of receiving such assistance we were compelled, in our opinion inadvisedly, to borrow the whole of the silver in the Gold Standard Reserve in December 1906*, and what we did was to urge our strong objections to this course, and to press that the loan should be treated as a purely temporary one; we most certainly did not wish the Secretary of State† to send us silver which we could not use. The Secretary of State, however, finally refused to earmark the necessary quantity of gold for the reason, among others, that he was obtaining 4½ per cent. interest on his balances‡; and to enable us to repay our forced loan from the Gold Standard Reserve he bought 4,000,000*l.* worth of silver in March 1907. Our silver requirements for the year had been carefully calculated by us before that; and what we had asked§ the Secretary of State to do was to buy 650,000*l.* worth monthly from the 15th of March, so as to let us pull up whenever we saw any danger of our supply becoming exhausted. The reversal of this arrangement and the unwillingness of the Secretary of State to lock up gold which was bringing in high interest,—these are the causes that led to the heavy accumulation of silver in 1907, and we are unable to assent to any other description of the position.

6. Apart from these corrections we are in general accord with the conclusions of the Memorandum. They present convenient formulæ for discussing the theory of the purchase of silver. But, as the writer admits, a practical decision at any given point of time must vary with the circumstances of the moment; and it is our regular procedure to take a practical decision on this important question once a quarter. We review the stocks of silver and gold in our reserves; we examine the absorption of rupees at the corresponding periods of previous years; we estimate, on the basis of prices and outturn, the requirements of the particular crops—jute, rice, cotton or wheat—which are on the eve of coming into the market; and we endeavour, with the advice of local expert knowledge, to forecast in this way the probable demands for

* Viceroy's telegram, dated the 16th February 1907, page 151.
† Government of India's Despatch No. 66, dated the 21st February 1907, page 151.
‡ Secretary of State's telegram, dated the 14th February 1907, page 151.
§ Viceroy's telegram, dated the 17th January 1907 (not printed).

currency during the ensuing quarter. It is on these considerations of the actual trade conditions of the moment that we determine whether the purchase of silver will or will not be necessary during the coming three months. The Comptroller General watches and reports on the position to us every week; and we are thus enabled to check and correct if necessary our original estimate. While therefore we are, as we have said, in general agreement with the Memorandum that we ought at present to aim at a stock of 24 crores and 17½ crores of rupees at the beginning and end respectively of each busy season, we should prefer not to bind ourselves by a rigid arithmetical formula. The position is changing rapidly. Since the Memorandum was written, our gross circulation of notes has risen to 60 crores, which would alone suggest higher minimum stocks than those quoted above. There is also a growing demand for sovereigns as a currency medium, and there is some evidence that gold is taking the place of rupees in hoards. On the other hand, a heavy excess of exports is apt to develop at short notice and to continue for protracted periods. All these factors teach the need for elasticity, and we propose to continue our practice of quarterly forecasts and to regulate indents for silver accordingly.

7. We welcome the acceptance in the Memorandum of our view that our stock of rupees should ordinarily include 6 crores in the silver branch of the Gold Standard Reserve. We also agree that if the Gold Standard Reserve silver falls below 6 crores, it should not be made the occasion for fresh coinage, provided our aggregate stock of rupees does not seem likely to be less than 17½ crores on the next 31st of March or 24 crores on the next 1st of October. We would point out however that, if your Lordship accepts 6 crores as the normal strength of this portion of our reserve, there can be no reason in ordinary circumstances for any lengthy delay in recouping a temporary withdrawal. At the present moment the stock of rupees in the Gold Standard Reserve is only 2·90 crores, and it has been well below 6 crores since the end of March 1910. The Paper Currency Reserve in the interval has been unquestionably strong enough to allow of the requisite transfer, provided the Secretary of State made an equivalent transfer of gold from the Gold Standard Reserve to his Paper Currency chest in London. We have not hitherto raised the question, for the reason that we saw no early prospect of a shortage of rupees; but we cannot readily reconcile the views accepted in the Memorandum with the prolonged abstention from restoring our Gold Standard Reserve silver to the figure which has been determined to be appropriate.

8. In order to put this important question upon a satisfactory footing, we suggest that the following procedure should be observed in future. We conceive that there is no doubt as to the true and primary function of the silver branch of the Gold Standard Reserve. You have employed it at times in a manner to which we were compelled to take exception; but we understand that you overruled us on considerations of temporary expediency, and that you are at one with us in principle. As we regard it, our Gold Standard Reserve silver is a bulwark against hasty coining. It supplements our general stock of rupees when the latter is running low; it gives us time to buy silver at discretion or, if the stringency is temporary, it enables us to carry through without fresh coining until the return of rupees from circulation recommences. This being the part which the Gold Standard Reserve rupees play in our currency arrangements, we should like to see their employment regulated on a definite plan. We think that at the beginning of the busy season we ought to have 6 crores of rupees in the Gold Standard Reserve and at least 18 crores in the Paper Currency Department. We should then make the best possible forecast for the season as a whole, reviewing the position thereafter from month to month, and arranging our coinage programme accordingly if any coinage seems necessary. Our employment of the Gold Standard Reserve silver, however, would be regulated differently according to the progress of the season. In the October to December quarter, when there is always a large absorption of rupees, we should aim at keeping the Currency Reserve of silver up to 18 crores; and the Gold Standard Reserve silver would be treated strictly as a reserve, to be drawn upon only in the event of some abnormal demand falsifying our estimate.

From January, however, as our revenue begins to come in and the position grows clearer, our caution could be relaxed. We should be justified in drawing freely on the Gold Standard Reserve silver, so far as it might be necessary and effective to keep the Currency Reserve of silver up to 15 crores as a minimum, and provided always that our total stock of rupees in the two reserves did not fall below 17½ crores on the 31st of March. All the rupees thus drawn from the Gold Standard Reserve would be transferred to the Currency Reserve in exchange for gold which we should remove from the Cnrrency Reserve in India and deposit in the Gold Standard Reserve in India. When the busy season closed, we should reverse the process; transfer gold from the Gold Standard Reserve in India to the Paper Currency Department; take rupees from the latter in exchange; and with them build up the Silver branch of the Gold Standard Reserve to its accepted figure of 6 crores. In this way we should ensure the correct use of the silver branch and its restoration each year to its proper strength. There would be the minimum of interference with the gold market in London. We should avoid, on the one hand, the artifice of borrowing from the Gold Standard Reserve for Treasury purposes in India and paying interest on the loan; and on the other hand, the anomalous position in which the silver branch has been placed during the last two years. We trust that your Lordship will allow this procedure to be recognised as our regular line of action in the future.

9. We return from this digression to the question of the strength of our gold reserves,—a question of paramount importance to the success of our currency policy, to the stability of our sterling exchange, and thus to the steady progress of the trade and industries of this country. In all these interests we are most anxious to eliminate differences of opinion between Your Lordship and ourselves on minor or unessential issues, and to find ourselves in a position to defend with conviction the whole range of our currency policy against the attacks and criticisms which we frequently have to answer in our Legislative Council and elsewhere. To this end we accept Lord Morley's estimate of the comparative utility of our holdings of gold in England and in India respectively. We should have been glad to meet the widely expressed sentiment in favour of having at least a part of our Gold Standard Reserve in India; but we recognise that, for the purpose of supporting exchange, the issue of our gold is equally, and certainly more quickly, effective in London than it would be in this country. We should also be glad to keep an ample supply of gold in our Indian Currency chests, in the hope of stimulating the genuine circulation of sovereigns. With this desire we understand that Your Lordship is in sympathy, and we gather that you will not interfere with the import of sovereigns into India on private account, so long as the interests of India in the London market are not thereby prejudiced, and so long as funds are assured for your Home payments. Further, we entirely accept the principles enunciated in paragraph 5 of the despatch of the 18th February 1910 for the regulation of the sale and payment of your drafts upon us. There thus remain only the two main issues with which this discussion began; namely, the standard figure for the sterling assets of the Gold Standard Reserve and the form in which those assets are held. On the latter point we adhere to the view that a large holding of liquid gold, strictly reserved for use in emergencies, would do more to strengthen exchange than an equivalent holding of securities which it will not be easy to realise in a crisis. We pressed this view on Lord Morley in April 1909, and failed to convince him. But His Lordship undertook, on behalf of the Secretary of State and his advisers, the full responsibility for realising the Gold Standard Reserve securities to whatever extent may be necessary to support exchange, even in times of prolonged depression in Indian trade and of adverse conditions elsewhere. We feel that we cannot ask for more than this. We should have preferred to see the reserve more independent of the money market, and consequently a more prompt and powerful agency in international trade; but Lord Morley has guaranteed that it will be available whenever required, and with this practical asurance we must be content.

10. On the other main issue we earnestly ask you to reconsider the existing orders. When we advised that the strength of the Gold Standard

Reserve in sterling should be gradually raised to 25,000,000*l.*, we had in view a figure which would be generally accepted as conclusive proof of the determination and ability of the Government of India to maintain a stable exchange. Lord Morley's decision that 25,000,000*l.* should be our standard *for the gold in the Gold Standard Reserve and the Paper Currency Department combined*, falls far short of what we believe to be desirable, and it has been regarded by the public with suspicion and dissatisfaction. We do not contest the view, elaborated in your predecessor's despatch of the 2nd July 1909, that the gold in the Paper Currency Department forms a part of our sterling resources, and is equally effective with any other gold, so long as it lasts, in support of exchange. But this particular holding of gold fluctuates for reasons over which we have little control. It is liable to flow out for the demands of ordinary circulation; it is liable to disappear into hoards; and it is liable to be rapidly spent in the purchase of silver. There is no calculation or stability about it; and it fails to impart the confidence in our position which is secured by adequate strength in the separate reserve that has been established solely for maintaining our Gold Standard and is incapable of being used for any other purpose. Our currency gold has been most useful in the past, and will always be available as a subsidiary line of defence against a falling exchange; but our ultimate reserve should be independent of it and its fluctuations. What the public want, and what in our opinion they have every reason to ask for, is a figure up to which the Gold Standard Reserve will be raised before the profits on coinage are diverted elsewhere. We believe that it is a mistake to complicate the issue by any appeal to our other resources. To declare a definite figure for the Gold Standard Reserve alone will clear the air and inspire confidence. What that figure ought to be, is a matter of opinion; but after the experiences of 1907–08 we believe that 25,000,000*l.* is advisable, as well as moderate and practicable. The reserve now holds over 17,500,000*l.*, and it fructifies at the rate of 500,000*l.* a year even if it gains only the slow accretion of its own interest. Should fresh coinage become necessary, the profits thereon would probably bring the reserve easily and rapidly to the figure which we advise. Nor can we share Lord Morley's apprehension that the building up of the reserve to 25,000,000*l.* will either divert funds from the industrial development of India or have an unfavourable effect on the Indian trade balance. The profits on coinage and the interest accruing on sums already invested will be used in your hands either in loans to the London market or in the purchase of securities from that market. In either case the total amount of gold on the market is in no way diminished; our particular gold cannot be described as locked up; and we do not understand how either the capital requirements of our industries or the current requirements of our trade can be prejudiced. Even, however, if this argument contains more truth than we conceive, we would urge that the accumulation of an effective balance in support of our gold standard is worthy of some temporary sacrifices. We believe, as we have said, that our proposal is moderate: we cannot see that it would cause any inconvenience to India; and we are convinced that its acceptance would meet with universal approval. The existing orders in our opinion do not provide for reasonable safety, and it is our clear duty to urge on Your Lordship the high importance of revising them, and allowing us to declare that the Gold Standard Reserve will be raised to 25,000,000*l.* before the income which now accrues to it is diverted to other purposes.

We have, &c.

(Signed) HARDINGE OF PENSHURST.
O'MOORE CREAGH.
G. FLEETWOOD WILSON.
R. W. CARLYLE.
S. H. BUTLER.
S. A. IMAM.
W. H. CLARK.
R. H. CRADDOCK.

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 76, dated 28th June 1912.

MY LORD,

I have considered in Council your Letter No. 48, dated 29th February 1912, discussing various questions relating to currency. I recognise with pleasure that, as you state, you have shown a strong desire to eliminate differences of opinion between the Government of India and the Secretary of State in Council on minor and unessential issues, so that the Government of India may be in a position to defend with conviction the whole range of currency policy against attack in the Legislative Council and elsewhere. It is in a similar spirit that I have considered the questions raised by you.

2. I am in general agreement with what is said in paragraph 6 of your Letter regarding the manner in which the purchase of silver for coinage should be regulated.

3. I recognise the advantage of the working rule, proposed in paragraph 8, regarding the silver branch of the Gold Standard Reserve. In this connection, however, there are two points to be noted :—

(*a*) The proposal in your telegram of 3rd May 1912 to add to the silver branch of the Gold Standard Reserve only the profit on any silver coinage that may be undertaken this year will in all probability prevent the standard figure of six crores from being attained before October next. If you desire to reconsider that proposal you will doubtless communicate with me.

(*b*) The proposed procedure of transferring rupees from the Gold Standard Reserve to the Paper Currency Reserve against a transfer of gold in the other direction is, in my opinion, one from which occasional departures may be necessary, since if rigidly applied it would deprive you of the means of utilising the former reserve for another purpose for which it may sometimes in exceptional circumstances be convenient to use it, viz., that of reinforcing your Treasury balances. Occasions may arise when those balances are insufficient to enable you to meet the Secretary of State's drawings and when they cannot be immediately supplemented by the ear-marking of gold in London without injury to Indian interests in other directions. In such circumstances it may be necessary to withdraw rupees direct from the silver branch of the Gold Standard Reserve, either against a temporary increase of the sterling branch or by way of loan. I fully recognise the objections to the latter alternative. The Government of India stated objections to the former in paragraph 2 of their Letter No. 66, dated 21st February 1907, and Lord Morley acquiesced. (*See* paragraph 9 of his Despatch No. 62, Financial, of 26th April 1907.) As the matter is one of importance, and as I am doubtful whether the decision reached in the correspondence just quoted should be regarded as final,* I shall be glad to learn your present views on the subject.

4. In paragraph 9 of your letter you mention arguments in favour of holding in gold a portion of the sterling branch of the Gold Standard Reserve. Having regard to the limited supply of suitable securities with a fixed and near date of repayment and to the undesirability of adding to the amount invested on account of the Reserve in Consols and other permanent securities, I have arrived at the conclusion that a portion of the Reserve may now be held in gold. I have therefore decided to set aside, from time to time, but at least once every six months, and to hold at the Bank of England, an amount equivalent to the interest on investments and profits on coinage hereafter received, except profits retained in India for building up the silver branch of the Reserve, until the amount so held reaches 5,000,000*l*.

*See paragraph 5 of Memorandum forwarded with Lord Morley's Despatch No. 25 (Financial), dated 18th February 1910, page 193.

5. In paragraph 10 of your Letter you earnestly ask that a figure be fixed up to which the sterling branch of the Gold Standard Reserve shall be raised before any part of the profits of coinage is used for capital expenditure on railways, and you suggest that 25,000,000*l.* is a suitable figure. The adoption of such a limit, to be applied irrespectively of the amount of the gold in the Paper Currency Reserve, involves the possibility that the total resources held available for the support of exchange may be considerably in excess of any requirements that will ever arise; and any such excess is wasteful, as representing money needlessly withdrawn from employment on the avoidance of debt or expenditure on productive purposes. It is clear that this consideration influenced my predecessor in giving the decision conveyed in his Despatch No. 82, dated 2nd July 1909; and it is one of great weight. On the other hand, I recognise the importance of a policy of caution in currency matters, and I desire to pursue a course which may be expected not only to strengthen general confidence but also to secure unanimity among the authorities responsible for the currency system as a whole. I have therefore decided that future profits on coinage shall be added to the Gold Standard Reserve until the sterling branch reaches 25,000,000*l.*

6. The fixing of the limit just mentioned adds to the importance of calculating the amount of the sterling branch of the Reserve in a manner to which no reasonable objection can be taken. At present securities are valued at cost price in the monthly and other returns; and it will be seen from the enclosed statement that this had the result of showing on 13th April 1912 a total exceeding by 717,802*l.* the selling value of the securities according to market quotations. I propose, therefore, subject to any observations that you may have to offer, to insert market value as ascertained half-yearly, viz., on 1st April and 1st October, instead of cost price, in the monthly published statements of the Reserve. I shall be glad to learn whether you have any objection to this change and from what date you think that it can be most conveniently introduced. You should also state what information, if any, you will require from this country in order to enable you to introduce the change in the various statements regarding the Gold Standard Reserve which you publish in India.

I have, &c.
(Signed) CREWE.

# Gold Standard Reserve.

| Description. | Stock and Securities held. | | Average Price at which bought. | Selling Price 13th April (Minimum). | Amount that would be realised. | Loss on Realisation. | Gain on Realisation. |
|---|---|---|---|---|---|---|---|
| | Nominal Value. | Cost Price. | | | | | |
| | £ s. d. | £ s. d. | £ s. d. | £ s. d. | £ | £ | £ |
| 2½ per cent Consolidated Stock | 4,665,769 18 9 | 4,207,463 8 0 | 90 3 7 | 77 17 6 | 3,633,468 | 573,995 | — |
| Local Loans 3 per cent. Stock | 200,000 0 0 | 195,105 13 11 | 97 11 1 | 88 15 0 | 177,500 | 17,606 | — |
| Guaranteed 2¾ per cent. Stock | 438,720 9 8 | 407,187 9 10 | 92 16 3 | 77 15 0 | 341,105 | 66,083 | — |
| Transvaal Government 3 per cent. (after 1923) Guaranteed Stock | 1,092,022 12 6 | 1,076,523 15 6 | 98 11 7 | 92 0 6 | 1,004,661 | 71,863 | — |
| Exchequer Bonds 3 per cent. (1912) | 850,000 0 0 | 852,786 7 6 | 100 6 7 | 100 0 0 | 850,000 | 2,786 | — |
| ,, ,, (1915) | 3,885,600 0 0 | 3,871,304 16 3 | 99 12 8 | 100 5 0 | 3,895,314 | — | 24,009 |
| British Treasury Bills | 4,500,000 0 0 | 4,439,922 13 3 | — | — | 4,439,923 | — | — |
| Union of South Africa Bills (1913) | 600,000 0 0 | 577,500 0 0 | — | — | 577,500 | — | — |
| Canada 3¾ per cent. Bonds (1912) | 378,000 0 0 | 383,758 6 6 | 101 10 5 | 101 0 0 | 381,780 | 1,978 | — |
| ,, 4 per cent. Bonds (1912) | 81,000 0 0 | 83,146 8 0 | 102 13 0 | 99 0 0 | 80,190 | 2,956 | — |
| ,, 3¾ per cent. Bonds (1914–19) | 161,000 0 0 | 164,436 13 6 | 102 2 8 | 100 10 0 | 161,805 | 2,632 | — |
| New Zealand 3½ per cent. Debentures (1914) | 101,400 0 0 | 100,006 15 0 | 98 12 6 | 99 10 0 | 100,893 | — | 886 |
| ,, ,, ,, (1915) | 45,000 0 0 | 45,169 15 0 | 100 7 6 | 99 10 0 | 44,775 | 395 | — |
| Queensland 4 per cent. Bonds (1915) | 17,000 0 0 | 17,213 6 0 | 101 5 1 | 101 0 0 | 17,170 | 43 | — |
| ,, Stock (1915) | 10,000 0 0 | 10,138 2 9 | 101 7 7 | 101 0 0 | 10,100 | 38 | — |
| New South Wales 4 per cent. Bonds (1915) | 4,000 0 0 | 4,105 6 0 | 102 12 8 | 100 10 0 | 4,020 | 85 | — |
| ,, 3½ per cent. Stock (1918) | 113,000 0 0 | 112,441 15 0 | 99 10 1 | 98 0 0 | 110,740 | 1,702 | — |
| Southern Nigeria 4 per cent. Bonds (1916) | 100,000 0 0 | 98,881 3 4 | 98 17 7 | 100 0 0 | 100,000 | — | 1,119 |
| Corporation of London 3½ per cent. Debentures (1913) | 50,000 0 0 | 50,002 8 0 | 100 0 1 | 99 12 6 | 49,812 | 190 | — |
| ,, ,, ,, (1914) | 50,000 0 0 | 50,001 0 0 | 100 0 0 | 98 17 6 | 49,438 | 563 | — |
| ,, 3½ per cent. Debentures (1915) | 45,000 0 0 | 45,451 0 0 | 101 0 1 | 99 0 0 | 44,550 | 901 | — |
| | 17,387,513 0 5 | 16,792,546 2 7 | | | 16,074,744 | 743,816 | 26,014 |
| placed by Secretary of State at short notice | | 1,110,663 19 1 | | Net loss on realisation | | | £717,802 |
| | | 17,903,210 1 8 | | | | | |

| | £ |
|---|---|
| Towards meeting Bills on London sold in India, securities of the nominal value of 9,110,959*l.* 18*s.* 9*d.* were sold in 1907–08 and 1908–09, at a net loss of | 146,852 |
| The loss on the National War Stock and Bonds redeemed on 5th April 1910 was | 3,317 |
| ,, Cape of Good Hope Bonds redeemed on 1st July 1911 | 2,914 |
| ,, New Zealand Debentures redeemed on 1st April 1912 | 282 |
| | 153,365 |
| The estimated loss on realisation of the securities now held, added to the actual loss on the securities already sold or redeemed, would therefore be | 871,167 |
| It may, however, be pointed out that the total amount received, from the date of the establishment of the Reserve to the present date, in respect of Dividends, Discount on Treasury Bills (excluding Discount on Bills now held), and Interest on loans at short notice, has been | 2,985,867 |

WALTER BADOCK,
Accountant-General.

India Office,
16th April 1912.

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No. 338, dated 29th November 1912.

MY LORD MARQUIS,

WE have the honour to refer to your Lordship's despatch No. 76 (Financial), dated the 28th June 1912, communicating the decision of your Lordship in Council on certain questions connected with our Currency policy and the Gold Standard Reserve.

2. We welcome the decisions to allow the sterling assets of the Gold Standard Reserve to accumulate to a figure of 25,000,000*l.* before the profits from coinage are diverted to outlay on railway construction and to hold a portion of the assets, fixed by your Lordship at a maximum of 5,000,000*l.*, as an "earmarked" deposit in the Bank of England.

3. In paragraph 3 of the despatch your Lordship has brought to our notice two points in connection with the silver branch of the Reserve. The first of these refers to the proposal made in our telegram of the 13th May last in connection with silver purchases in the current year, that the silver branch should be built up from profits on coinage. The profits now accruing are being paid in rupees into the silver portion of the Reserve, and it is probable that it will be restored to the standard figure of six crores before the close of the current financial year. We should have been glad to see the silver holding in the Gold Standard Reserve restored to the standard figure some time earlier, but this has not been possible since the commencement of the last busy season, as the stock of rupees in the Currency Reserve did not permit of the transfer, and it was obviously undesirable to purchase silver for this purpose only. We have considered in this connection whether any portion of the profits now accruing should be remitted to England for deposit in liquid gold with the Bank of England before the silver branch is brought up to six crores of rupees. In view of the comparatively strong position of our Gold reserves at the present time, and the importance we attach to restoring the silver branch to its normal strength, we are of opinion that this course is not necessary and that the profits should be applied first to the building up of the silver branch.

4. The other point has reference to the proposals made in paragraph 8 of our despatch of 29th February 1912 in regard to the normal procedure for utilising the silver branch of the Reserve. You point out that in exceptional circumstances, that is, when a reinforcement of treasury balances in India is necessary and cannot be effected against the earmarking of gold in London, it may be convenient to withdraw rupees from the silver branch of the Gold Standard Reserve, not, as we proposed, against a transfer to the Reserve of gold in India, but either against a temporary increase of the sterling branch or by way of loan, and as the matter is important you desire with reference to previous correspondence to be informed of our present views on the subject.

5. To enable us to answer your Lordship's inquiry on this point it is desirable to consider the use of the rupees in the Gold Standard Reserve from two standpoints, though these are closely inter-connected, as a question, that is to say, in the first place of currency, and secondly as a question of funds. In paragraph 8 of our despatch of the 29th February last we were considering the first aspect of the case, and we stated accordingly, having regard to the circumstances which led to the constitution of the silver branch of the Reserve, that in our view the proper function of the Reserve is to act as a reservoir for *currency* purposes, and that it should be used to support the Currency, which is the main, Reserve by exchanges between the two reserves of rupees and sovereigns according to the seasonal variations of demand for currency in different forms.

6. For the purpose of the discussion just mentioned we assumed in fact a state of equilibrium, with regard both to the aggregate of each kind of balance, whether treasury, Currency, or Gold Standard Reserve, and to the

distribution of these balances between England and India. We have now to consider a disturbance of this equilibrium, and this amounts to a movement of funds. The first case of this kind mentioned by your Lordship is that in which an actual loan is taken from the Gold Standard Reserve in aid of treasury balances; this, we agree, must be a very exceptional case, and could be justified only when there is an insufficiency in the aggregate treasury balances held in India and in England. The ordinary case is that of transfer of Government funds from India to London, and generally of course this is effected through treasury. The question is what course should be adopted if the treasury balance in India is exhausted and the drawing of further Council bills is necessary. This question, we may observe, though we have described it as one of funds, is connected also with currency, for the bulk of our payments in India has to be made in rupees. For this reason we hold that to have immediate recourse to the Gold Standard Reserve would be inconsistent with the policy of treating the stock of rupees it contains as a real reserve, and in the case stated we think that the requisite drawings should be made through currency. It is only in the last resort that the Gold Standard Reserve should be utilised for this purpose, but we recognise that in certain conditions of the home market the earmarking of gold involved in drawing through currency might be undesirable and prejudicial to Indian interests; and if such an exceptional emergency were to arise we do not, so far as we can judge at present, see much objection to a temporary investment in England on behalf of the Gold Standard Reserve in easily realisable securities against a withdrawal of rupees in India in aid of treasury balances.

7. It will be observed that in the course of the present correspondence the conception of what is now known as the silver branch of the Gold Standard Reserve has been considerably modified. In the first place, under the proposals made in our despatch of the 29th February, it may now, according to the season of the year, consist indifferently of gold or silver, and in view of this development it might now more appropriately be designated the Indian branch of the Gold Standard Reserve. Secondly, its relation to the Currency Reserve has been clearly set out, and as the manner in which it will be used to supplement and support the Currency Reserve will in future make it more of a real reserve, we think it very important that it should be maintained at what has been accepted as the normal amount of six crores. This point has already been mentioned in our earlier despatch, but its importance is enhanced by our present recommendations regarding the possible use of the Gold Standard Reserve in reinforcing our treasury balances. Should the Indian branch at any time be depleted when the treasury balance in this country was low, then, whatever might be the state of the market at home, there would be no option if further Council Bills were required, but to draw through Currency. The argument based on considerations of currency therefore in favour of maintaining the Indian branch of the Gold Standard Reserve at full strength is reinforced by the desirability of keeping in reserve an alternative method of effecting a transfer of funds.

8. We cordially agree with the suggestion in the concluding paragraph of your despatch that the periodical publications of the balance of the Gold Standard Reserve should show the current market price of investments in securities instead of the original purchase price. This procedure will be followed in the monthly publications in India, commencing with that for the 31st December next, and in the quarterly publications commencing with that for the quarter ending on the same date. The only statements regarding the position of the Gold Standard Reserve which we publish annually are those contained in the Finance and Revenue Accounts—*vide* Accounts No. 88 and 88A for 1910-11 and in the Comptroller-General's annual report on the operations of the Currency Department. The latter will show market price in future. As regards the former, the substitution of market price for purchase price would result in showing as an actual debit what is only a difference in valuation and we do not think such a procedure is either contemplated or necessary. We will accordingly make

no change in the method of preparing these statements, but the market price will be stated in a footnote to Account No. 88A.

9. We agree also that the publications referred to in the preceding paragraph should show the market value as ascertained half-yearly on 1st April and 1st October. The result of this procedure will be that purchase price instead of market value will be shown in the case of investments made since the last half-yearly valuation, and if your Lordship sees no objection, it will be convenient to split up item 3 in the monthly publication as follows:—

"3. British and Colonial Securities, &c,
held on.....
(market price on.....)
4. British and Colonial Securities since purchased
(cost price)."

10. In order to give effect to these proposals, it will be sufficient if the figure for "market price" is substituted for "cost price" in your monthly telegram to the Comptroller-General which will be sent in the beginning of January next, the increase or decrease as compared with the preceding report being also given as a check figure. The result of the half-yearly valuations may also be reported either separately or through the monthly returns regarding the transactions of the Gold Standard Reserve furnished to the Comptroller-General.

We have, &c.
(Signed) O'MOORE CREAGH.
GUY FLEETWOOD WILSON.
W. H. CLARK.
R. H. CRADDOCK.

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 13 F., dated 24th January 1913.

MY LORD,

I HAVE considered in Council your letter in the Finance Department, No. 338, dated the 29th November 1912, regarding certain subsidiary questions connected with the Currency and Gold Standard Reserve.

2. We are in agreement in holding that when, in order to meet the pressing requirements of trade, I am compelled to sell Bills and Telegraphic Transfers beyond the extent to which you are able to meet them from your Treasury balances, the ordinary and most desirable course to be followed is that you should withdraw funds from your Currency Reserve to meet my drawings, an equivalent sum being transferred by me in gold to the Paper Currency Reserve held at the Bank of England. But we are also agreed that circumstances may arise in which this cannot be done, at any rate on a large scale, without injury to Indian interests, and that in such cases it may be necessary for you to supplement your resources for meeting my Bills by drawing upon the portion of the Gold Standard Reserve held in India; and I note with gratification that you now accept the view expressed in paragraph 2 of Lord Morley's Despatch of 16th November 1906, No. 135, in paragraph 9 of his Despatch of 26th April 1907, No. 62, and in paragraph 5 of the memorandum forwarded with his Despatch of 18th February 1910, No. 25, that in such an event the preferable course, wherever practicable, is that the sum remitted to England from the Gold Standard Reserve should be temporarily added to the portion of the Reserve held in England rather than treated as a loan from the Reserve to the Treasury balances.

3. In paragraph 7 of your letter you observe that under the arrangements proposed in your previous letter of 29th February 1912, and approved in my Despatch of 28th June, the silver held in the Gold Standard Reserve

in India may be partly replaced by gold during a portion of the year, and that thus the designation "Silver Branch of the Gold Standard Reserve" will become inappropriate, and you propose to re-name the portion of the Reserve held in India the "Indian Branch of the Gold Standard Reserve." I approve this recommendation.

4. I also accept the suggestions made in paragraphs 8–10 of your letter in regard to the future publication of statements showing the composition of the Gold Standard Reserve. Valuations of the Reserve will henceforth be made on the 31st March and 30th September, and their results will be communicated to your Comptroller-General with the detailed accounts sent to him early in April and October.

5. As the Indian branch of the Reserve may in the future sometimes contain a considerable amount of gold, it may be well to place on record that the intention of paragraph 5 of my Despatch of 28th June 1912, No. 76, was that the minimum of 25,000,000*l.* there mentioned was to be exclusive of any gold held in the Reserve in India. To avoid misunderstanding on this point it will be convenient to designate the portion of the Reserve held in this country as the "London branch" of the Reserve.

I have, &c.
(Signed) CREWE.

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No. 76, dated 23rd May 1913.

MY LORD,

I FORWARD herewith a Memorandum and Statement giving fuller information regarding the matter discussed in the latter part of paragraph 5 of your Letter No. 48, dated 29th February 1912.

I have, &c.,
(Signed) CREWE.

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Enclosure No. 1.

Purchases of Silver in 1907.

In the series of Despatches noted in the margin* many important questions relating to the Gold Standard Reserve were, for the time being, settled between the Secretary of State and the Government of India. There is one question on which the discussion was left incomplete, viz., the causes of the large accumulations of silver in the Reserves of the Government of India in 1907.

The course of events is discussed, but not quite fully stated, in the passages mentioned in the margin.† It may be briefly summarised as follows. In the winter of 1906–07 sales of Council Bills and Telegraphic Transfers were made in excess of the amount that the Government of India could meet from Treasury balances. The Government of India desired that the excess should be provided for by "earmarking" gold in London, *i.e.*, by the addition of gold to the portion of the Paper Currency Reserve held in London so as to enable a corresponding amount to be taken in rupees from the Paper Currency Reserve in India. The Secretary of State (mainly for

* Secretary of State to Government of India, dated 18th February 1910, page 185.
Government of India to Secretary of State, dated 29th February 1912, page 195.
Secretary of State to Government of India, dated 28th June 1912, page 201.
Government of India to Secretary of State, dated 29th November 1912, page 204.
Secretary of State to Government of India, dated 24th January 1913, page 206.

† Paragraph 5 of Memorandum forwarded with Secretary of State's Despatch of 18th February 1910, page 193.
Paragraph 5 of Despatch from Government of India, dated 29th February 1912, page 197.

the reasons given in paragraph 3 of his Despatch of 26th April 1907, No. 62, Financial) did not fully meet the wishes of the Government of India in this matter, though he increased the "earmarked" gold in England from 4,250,000*l.* to 8,100,000*l.* between November 1906 and April 1907. The excess Council Bills and Telegraphic Transfers, so far as not met in this way, were met by taking loans from the Indian branch of the Gold Standard Reserve; and it was decided to buy silver in order to provide for the repayment of the loans and the restoration of the Indian branch to its normal amount of six crores (4,000,000*l.*) by 31st March 1907. This was duly done; and on the date mentioned the Paper Currency Reserve and the Indian Branch of the Gold Standard Reserve included silver as follows (*see* Statement attached) :—

| | Lakhs. |
|---|---|
| Paper Currency Reserve: Rupees | 13,70 |
| Paper Currency Reserve: Bullion (in tolas) approximately | 6,81 |
| Indian Branch of Gold Standard Reserve: Rupees | 6,00 |
| | 26,51 |

This was considerably in excess of the amount (17,50 lakhs) required on 31st March according to the standard suggested in the Memorandum forwarded to the Government of India with the Secretary of State's Despatch of 18th February 1910, No. 25 (Financial), and accepted, with certain reservations, in paragraph 6 of the Despatch from the Government of India dated 29th February 1912. But, as the absorption of rupees by the public from April to September 1907 from the two Reserves was 2,12 lakhs, the amount held on 1st October 1907, if no purchases had been made after 31st March 1907, would have been 26,51 − 2,12 = 24,39 lakhs, or a little more than the 24 crores suggested and accepted in the correspondence just mentioned.

The amount actually held in rupees and silver on 30th September was (*see* Statement attached) as follows :—

| | Lakhs. |
|---|---|
| Paper Currency Reserve: Rupees | 22,79 |
| Paper Currency Reserve: Bullion (in tolas) approximately | 3,52 |
| Indian Branch of Gold Standard Reserve: Rupees | 6,00 |
| | 32,31 |

An insignificant part of the excess of this total over the 24,39 lakhs quoted above was due to the addition to the Reserves after 31st March 1907, of 100,000*l.* worth of silver in completion of orders given before that date. The greater part was due to the following purchases of silver made (*see* Statement attached) between 31st March and 30th September 1907 :—

| | £ |
|---|---|
| By the Secretary of State, in accordance with requests made by the Government of India in telegrams of 16th May, 10th June, 1st July, and 20th August 1907 | 2,529,000 |
| By the Secretary of State in addition to the above | 9,800 |
| By the Government of India in India | 1,528,000 |
| Total | 4,066,800 |

The out-turn in rupees from this silver was approximately 7,97 lakhs.

It may be assumed that the purchases would not have been made if the understanding embodied in the Memorandum forwarded with Lord Morley's Despatch of 18th February 1910, and in paragraph 6 of the Letter from the Government of India, dated 29th February 1912, No. 48, had been in force in 1907.

## Enclosure No. 2.

## SILVER HELD BY THE GOVERNMENT OF INDIA, AND PURCHASES

| Week ending | Silver Coin in Paper Currency Reserve. | Uncoined Silver in Paper Currency Reserve (including Silver in transit as shown in Column 6). | | Silver held in India for Gold Standard Reserve. | Totals, 2 + 3b + 4. |
|---|---|---|---|---|---|
| | | Value in Lakhs. | Equivalent in Tolas† (approximate). | | |
| (1) | (2) | (3a) | (3b) | (4) | (5) |
| 1907. | Lakhs. | Lakhs. | | Lakhs. | Lakhs. |
| January 7 | 13,89 | 5,45 | 7,12 | 10 | 21,11 |
| „ 15 | 12,69 | 5,50 | 7,19 | 10 | 19,98 |
| „ 22 | 13,82 | 4,15 | 5,42 | 58 | 19,82 |
| „ 31 | 14,12 | 3,72 | 4,86 | 75 | 19,73 |
| February 7 | 14,09 | 3,50 | 4,57 | 98 | 19,64 |
| „ 15 | 14,36 | 3,78 | 4,94 | 1,18 | 20,48 |
| „ 22 | 14,82 | 3,72 | 4,86 | 1,39 | 21,07 |
| „ 28 | 15,69 | 3,72 | 4,86 | 1,56 | 22,11 |
| March 7 | 15,06 | 3,73 | 4,88 | 2,71 | 22,65 |
| „ 15 | 14,31 | 3,69 | 4,82 | 2,98 | 22,11 |
| „ 22 | 13,96 | 3,89 | 5,08 | 5,16 | 24,20 |
| „ 31 | 13,70 | 5,21 | 6,81 | 6,00 | 26,51 |
| April 7 | 13,34 | 4,88 | 6,38 | 6,00 | 25,72 |
| „ 15 | 13,55 | 4,27 | 5,58 | 6,00 | 25,13 |
| „ 22 | 13,53 | 3,94 | 5,15 | 6,00 | 24,68 |
| „ 30 | 14,27 | 3,53 | 4,61 | 6,00 | 24,88 |
| May 7 | 14,16 | 3,13 | 4,09 | 6,00 | 24,25 |
| „ 15 | 14,35 | 2,72 | 3,56 | 6,00 | 23,91 |
| „ 22 | 14,62 | 2,44 | 3,19 | 6,00 | 23,81 |
| „ 31 | 15,30 | 2,17 | 2,84 | 6,00 | 24,14 |
| June 7 | 15,25 | 1,92 | 2,51 | 6,00 | 23,76 |
| „ 15 | 16,55 | 1,63 | 2,13 | 6,00 | 24,68 |
| „ 22 | 17,33 | 1,63 | 2,13 | 6,00 | 25,46 |
| „ 30 | 18,85 | 1,49 | 1,95 | 6,00 | 26,80 |
| July 7 | 18,94 | 1,49 | 1,95 | 6,00 | 26,89 |
| „ 15 | 19,72 | 1,41 | 1,84 | 6,00 | 27,56 |
| „ 22 | 20,36 | 1,41 | 1,84 | 6,00 | 28,20 |
| „ 31 | 21,41 | 1,59 | 2,08 | 6,00 | 29,49 |
| August 7 | 21,43 | 1,71 | 2,23 | 6,00 | 29,66 |
| „ 15 | 22,01 | 2,11 | 2,76 | 6,00 | 30,77 |
| „ 22 | 22,45 | 2,02 | 2,64 | 6,00 | 31,09 |
| „ 31 | 22,63 | 1,65 | 2,16 | 6,00 | 30,79 |
| September 7 | 21,99 | 2,12 | 2,77 | 6,00 | 30,76 |
| „ 15 | 21,61 | 2,37 | 3,10 | 6,00 | 30,71 |
| „ 22 | 21,81 | 2,67 | 3,49 | 6,00 | 31,30 |
| „ 30 | 22,79 | 2,69 | 3,52 | 6,00 | 32,31 |
| October 7 | 22,45 | 2,71 | 3,54 | 6,00 | 31,99 |
| „ 15 | 21,79 | 2,71 | 3,54 | 6,00 | 31,33 |
| „ 22 | 21,51 | 2,55 | 3,33 | 6,00 | 30,84 |
| „ 1 | 21,55 | 2,07 | 2,71 | 6,00 | 30,26 |

† A rupee contains a tola of silver.

## Enclosure No. 2.

## AND SHIPMENTS OF SILVER FOR COINAGE, IN 1907.

| Silver bought by India Office and Shipped from London. | | | Silver purchased for delivery in India otherwise than by shipment from London (bought by Government of India unless otherwise stated). | | |
|---|---|---|---|---|---|
| Amount Shipped. (6) | Date of Shipment. (7) | Date of Order. (8) | Amount. (9) | Date of Delivery. (10) | Date of Order. (11) |
| £ | | | £ | | |
| 100,000 | 25th January | The Government of India on 17th January asked the Secretary of State to buy silver at the rate of 650,000*l.* a month. The Bank of England was asked on 18th January to buy until further orders. On 9th March the Bank was instructed to cease buying when 3,280,000*l.* had been bought. Taking account of the 151,000*l.* shown in column 9, this limit was reached on 19th March. | | | |
| 210,000 | 1st February | | | | |
| 320,000§ | 8th February | | | | |
| 304,000 | 9th February | | | | |
| 300,000 | 15th February | | | | |
| 302,000 | 22nd February | | | | |
| 315,000 | 1st March | | | | |
| 272,000 | 8th March | | | | |
| 210,000 | 9th March | | 202,000 | 21st March | 20th and 27th February. |
| 258,000 | 15th March | | 482,000 | 26th March | |
| 137,000 | 22nd March | | 40,000* | 27th March | 26th February. |
| 123,000 | 23rd March | | 151,000*‡ | 27th March | 18th January. |
| 180,000 | 28th March | | | | |
| 7,000 | 5th April | | | | |
| 93,000 | 6th April | | | | |
| 113,000 | 24th May | On 16th May the Government of India asked for 1,000,000*l.* worth of silver, and this amount was ordered the same day. | | | |
| 72,000 | 1st June | | | | |
| 85,000 | 7th June | | | | |
| 100,000 | 15th June | On 10th June they asked for 500,000*l.* and this was ordered on 21 June. | | | |
| 145,000 | 21st June | | | | |
| 170,000 | 28th June | | | | |
| 120,000 | 5th July | On 1st July they asked for 500,000*l.*, and this was ordered on 9th July. | 9,800* | 5th July | 28th May. |
| 158,000 | 12th July | | 22,000*‡ | 29th July | 20th June. |
| 259,000 | 19th July | | 110,000 | 29th July | 11th July. |
| 41,000 | 26th July | | 218,000 | 29th July | About 20th July |
| 52,000 | 27th July | | | | |
| | | | 55,000*‡ | 8th August | |
| 273,000 | 10th August | | 56,000*‡ | 9th August | |
| 150,000 | 16th August | | 300,000 | 26th August | 26th July. |
| 87,000 | 23rd August | On 20th August they asked for 1,000,000*l.*, but the amount was reduced on 19th Sept. to 750,000*l.* 500,000*l.* worth was ordered on 23rd Aug., and 250,000*l.* worth on 20th Sept. | 100,000 | 26th August | 3rd August. |
| | | | 41,000*‡ | 28th August | 23rd July. |
| | | | 154,000 | 29th August | 26th July. |
| 45,000 | 6th Sept. | | | | |
| 160,000 | 7th Sept. | | 300,000 | 9th Sept. | 16th August. |
| 100,000 | 13th Sept. | | 346,000 | 25th Sept. | 26th–28th August. |
| 85,000 | 20th Sept. | | 25,000*‡ | 25th Sept. | |
| 115,000 | 27th Sept. | | | | |
| 184,000 | 4th October | | 16,000 | 1st October | About 30th Sept. |
| 36,000 | 11th October | | | | |

* Purchased by India Office.
‡ Included in amounts ordered as shown in column 8.
§ 20,000*l.* of this was paid for on delivery in Bombay on 4th March and did not form part of the Paper Currency Reserve till that date.

# APPENDIX VI.

NOTE ON PROPOSALS FOR THE COINAGE OF GOLD IN INDIA, SUBMITTED BY MR. L. ABRAHAMS, C.B., ASSISTANT UNDER SECRETARY OF STATE FOR INDIA.

1. The Indian Currency Committee of 1898–99 said in paragraph 54 of their Report :—"We are in favour of making the British sovereign a legal "tender and a current coin in India. We also consider that at the same "time the Indian Mints should be thrown open to the unrestricted coinage "of gold on terms and conditions such as govern the three Australian "branches of the Royal Mint. The result would be that, under identical "conditions, the sovereign would be coined and would circulate both at "home and in India. Looking forward as we do to the effective establish-"ment in India of a gold standard and currency based on the principles of "the free inflow and outflow of gold, we recommend these measures for "adoption."

2. The recommendation that gold coin should be a legal tender was carried out by the passing of Act XXII. of 1899, which provided that "gold coins, "whether coined at Her Majesty's Royal Mint in England, or at any Mint "established in pursuance of a Proclamation of Her Majesty as a branch of "Her Majesty's Royal Mint, shall be a legal tender in payment or on "account at the rate of fifteen rupees for one sovereign."

3. The proposal for the coinage of gold in India was discussed by the Secretary of State with other authorities in this country and with the Government of India between 1899 and 1903, and again in 1912. The correspondence on the subject has been published in Parliamentary Paper 495 of 1913. The chief points in the discussion may be summarised from the Parliamentary Paper as follows :—

i. From 1899 to 1902 the correspondence between the Secretary of State and the Government of India proceeded on the assumption that the early establishment at Bombay of a branch of the Royal Mint for the coinage of sovereigns was desirable.

ii. A legal difficulty arose (page 14) as to the possibility of dispensing with a charge for coinage. This was in due course disposed of (page 27).

iii. Similarly, questions regarding the suitability of the buildings, appliances, and staff at Bombay were raised; but these were practically disposed of by May 1901, when a plan agreed to by the Deputy Master of the Royal Mint and an officer of the Government of India was approved by the Treasury (page 55).

iv. The question whether the coinage of gold in India was really necessary and desirable was raised by the Treasury during the discussion of the legal and technical difficulties. As against the Secretary of State's view that it would maintain confidence in the Gold Standard as being "the clearest outward sign that can be given of the consummation of the new currency system" (page 54), the Treasury said : "Indian "currency needs are, in fact, provided for from other sources [*i.e.*, "the importation of sovereigns], and there is no real demand for the "local coinage of sovereigns. My Lords cannot believe that the "position of the gold standard in India will be strengthened, or "public confidence in the intentions of the Government confirmed, by "providing machinery for obtaining gold coins which is neither "demanded nor required by the mercantile community, while on the "other hand, the failure or only partial success of a gold mint would "undoubtedly be pointed to by the opponents of the gold standard "policy, although without justification, as evidence of the breakdown

" of that policy. The large measure of confidence already established " is sufficiently indicated by the course of exchange since the " Committee's Report, and still more by the readiness with which gold " has been shipped to India. This confidence is, in the opinion of " this Board, much more likely to be put in jeopardy by such a result, " of which the danger is by no means remote, than by the frank " abandonment of one of the details of the policy recommended by the " Indian Currency Committee, which experience has shown to be " unnecessary." (Page 55.)

v. Discussion on the points raised by the Treasury came to a natural end when in December 1902 the Government of India wrote to the Secretary of State as follows: " We have now ascertained that the chief " mining companies have made arrangements, with which they are at " present satisfied, for the regular sale of their gold in London; and " we are doubtful whether any terms that we could offer with a due " regard to our own interests would induce them at an early date to " alter those arrangements and to bring their gold to the mint in " Bombay. In the absence, therefore, of an assurance that a steady " and permanent supply of gold of local production would be available " for coinage in this country, we prefer to drop the scheme for the " present, leaving its revival to the existence or revival of conditions " which cannot at present be foreseen." (Page 56.) The Secretary of State agreed with the Government of India that the proposal for a Bombay branch of the Royal Mint should not be proceeded with for the present (Despatch of 6th February 1903).

4. The discussion which ceased in 1903 was revived in 1911 when Sir V. D. Thackersey spoke in the Viceroy's Legislative Council in support of the issue of an Indian gold coin from one of the Indian mints. In 1912 he moved a Resolution " that this Council recommends to the Governor-General in " Council that the Indian mints be now thrown open to the free coinage of gold " in coins of suitable denominations." He expressed a preference for a ten rupee gold piece. The Resolution was withdrawn on the receipt of an assurance by the Financial Member of Council that the matter would be laid before the Secretary of State. The communication to the Secretary of State took the form of the Despatch dated 16th May 1912 (pages 57 to 63 of Parliamentary Paper) recommending that arrangements should be made, on a small scale at first, for the coinage of sovereigns at the Bombay Mint. The proposal rested to a considerable extent on the belief that holders of gold bullion and ornaments would be induced to convert part of them into coin if a mint were established. The Secretary of State found on consulting the Treasury that any mint in India for coining sovereigns would have to be under the control of the Imperial authorities, and that, therefore, the only alternatives were to set up a separate gold mint under such control, or to transfer to the Imperial authorities the whole of the operations of the Bombay Mint including the coinage of rupees as well as sovereigns. To avoid both of these alternatives, he suggested the coinage at Bombay of a ten rupee gold piece, as advocated by Sir V. D. Thackersey (pages 65 and 66). The Government of India have indicated a preference for this over both the alternatives proposed by the Treasury; but the whole matter is left open, pending the recommendations of the present Royal Commission.

5. The following information may perhaps be of use to the Commission in considering the question:—

6. The attached Statement shows that from 1901–02 to 1912–13 the gross imports of British gold coin into India amounted to 97,473,000*l.*, the exports (mainly on Government account*) to 23,665,000*l.*, and the net imports to 73,808,000*l.*

7. When sovereigns are imported into India they are, as a rule, tendered to the Government in order that rupees or notes may be issued in exchange for them at the ratet of Rs. 15 = 1*l.* The proportion of the total imports

* Down to 1905–06 the Government exports represented (1) gold sent by the Government of India to the Secretary of State to pay for silver, for securities bought for the Gold Standard Reserve, and to meet other disbursements; (2) 5,000,000*l.* sent in 1905–06 to establish the English branch of the Paper Currency Reserve. The Government exports since 1905–06 have consisted of light coin sent to England because it would have been inconvenient to retain it in India.

tendered by the importers to the Government from 1905–06 to 1912–13 is shown in Statement H accompanying my Memorandum on the "Location "and Management of General Balances of the Government of India and Sale "of Council Bills and Transfers."

8. Sovereigns received by the Government are made freely available to the public against the tender of rupees, or in encashment of notes, at the rate mentioned above. The Receipts and Issues of British gold coin into and from Government Treasuries and Reserves under this system were approximately as follows in 1909–10, 1910–11, 1911–12, and 1912–13:—

| —— | 1909–10. | 1910–11. | 1911–12. | 1912–13. |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Receipts by Government from Importers. | 7,139,000 | 7,626,000 | 17,053,000 | 16,939,000 |
| Other Receipts (*i.e.*, Receipts from general public). | 894,000 | 3,727,000 | 6,869,000 | 11,393,000 |
| Total Receipts - - | 8,033,000 | 11,353,000 | 23,922,000 | 28,332,000 |
| Issued to public - - | 1,689,000 | 11,073,000 | 14,617,000 | 21,815,000 |
| Light coins exported - - | — | — | — | 2,383,000 |
| Total Issues - - | 1,689,000 | 11,073,000 | 14,617,000 | 24,198,000 |
| Net Receipts* - - | 6,344,000 | 280,000 | 9,305,000 | 4,134,000 |

9. The absorption of sovereigns in India by the public from 1899–1900 to 1912–13, (*i.e.*, the amount that has passed into the possession of the public either direct from importers or from Government Reserves and Treasuries), is shown in the Statement appended to this Note. The total is 64,815,000*l.*

10. The latest investigations into the extent to which the sovereigns absorbed by the public are used as currency will be found in Mr. Gillan's Report on the Paper Currency Department for 1910–11 and Mr. Gauntlett's Report for 1911–12. Both writers seem to be of opinion that the use of the sovereign as currency is on the increase in Bombay, Northern India, and Madras, but that elsewhere it is largely used for melting or hoarding or both, which would appear to militate to some extent against the probability of the establishment of a gold mint in India leading to any great extent to the conversion into coin of gold now held in the form of bullion and ornaments.

11. The gold extracted from Indian mines amounts to a little more than 2,000,000*l.* a year. The amount has shown very little variation during the last ten years.

12. No estimate has been framed of the cost of establishing an Indian mint for the coinage of sovereigns. An approximate statement of the staff

* The net receipts and issues in this Table differ somewhat from those shown in Statement H (2) accompanying my Memorandum on the "Location and Management of General Balances of the Government of India and Sale of Council Bills," (page 85) and from the corresponding ones that could be deduced from the figures in the Statement appended to this note. The comparison is as follows:—

Net Receipts (+) or Issues (—).

| —— | 1909–10. | 1910–11. | 1911–12. | 1912–13. |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Shown in Statement H - - - - | 6,339,000 | 59,000 | 9,344,000 | 4,135,000 |
| Shown in Table above - - - - | 6,344,000 | 280,000 | 9,305,000 | 4,134,000 |

The differences are due to the fact that the figures in Statement H are based, as to the first three years, on the information given in the Reports of the Paper Currency Department, and, as to 1912–13, on information specially furnished by the Comptroller-General and Head Commissioner of Paper Currency; whereas those in the Table above are compiled from the telegrams (four in each month) sent by the Comptroller-General to the Secretary of State. The figures in those telegrams are in thousands of pounds (which would explain such slight divergences as are shown in 1909–10 and 1912–13); but the telegrams sent in 1910–11 and 1911–12 presumably contained errors that were tacitly corrected in the annual statements.

required for a mint capable of coining 2,000,000*l.* a year was drawn up in 1900, and will be found on pages 40 to 42 of the Parliamentary Paper. It will be seen that it includes a superior controlling staff of seven Europeans and five Indians, and a subordinate working staff of 43. The establishment charges (including contingencies and pensions) of other branch mints of similar capacity were in 1911 as follows :—

| —— | Coinage. | Charges. | —— |
|---|---|---|---|
| | £ | £ | |
| Sydney - - - | 2,645,000 | 15,157 | (Page 127 of Report of Deputy Master of Royal Mint.) |
| Melbourne - - - | 2,851,000 | 15,721 | (Page 137.) |
| Perth (excluding pensions) - | 4,438,000 | 20,178 | (Page 151.) |

The Australian Branch mints recover a substantial portion of their expenditure by the levy of Charges for the Coinage of Gold as allowed by Section 11 (8) of the Coinage Act of 1870. The view that has always been taken in discussions regarding a Branch Mint for the coinage of gold in India has been that there should be no corresponding charge in any such Mint (see pages 19, 27, and 60 of the Parliamentary Paper).

STATEMENT of Imports and Exports of British Gold Coin to or from India, Amount of such Coin held by the Government of India, and Absorption by Public.

| Year. | Imports. | | | Exports. | | | Net Imports. | | | Amount of Sovereigns and Half-Sovereigns held in Government Treasuries and Reserves at end of Year. | Absorption by Public during Year. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | On Private Account. | On Government. Account. | Total. | On Private Account. | On Government Account. | Total. | On Private Account. | On Government Account. | Total. | | |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 1899–1900 - | — | — | — | — | — | — | — | — | — | — | 2,700,000 |
| 1900–01 - | — | — | — | — | — | — | — | — | — | 6,225,000 | 2,049,000 |
| 1901–02 - | 3,511,000 | 6,000 | 3,517,000 | 148,000 | 1,614,000 | 1,762,000 | 3,363,000 | — *1,608,000* | 1,755,000 | 7,003,000 | 977,000 |
| 1902–03 - | 5,782,000 | 30,000 | 5,812,000 | 368,000 | 398,000 | 766,000 | 5,414,000 | — *368,000* | 5,046,000 | 9,897,000 | 2,152,000 |
| 1903–04 - | 8,645,000 | 11,000 | 8,656,000 | 188,000 | 4,170,000 | 4,358,000 | 8,457,000 | — *4,159,000* | 4,298,000 | 10,912,000 | 3,283,000 |
| 1904–05 - | 8,690,000 | — | 8,690,000 | 113,000 | 5,605,000 | 5,718,000 | 8,577,000 | — *5,605,000* | 2,972,000 | 10,941,000 | 2,943,000 |
| 1905–06 - | 3,990,000 | 4,000 | 3,994,000 | 1,151,000 | 5,955,000 | 7,106,000 | 2,839,000 | — *5,951,000* | — *3,112,000* | 4,032,000 | 3,797,000 |
| 1906–07 - | 5,319,000 | 42,000 | 5,361,000 | 410,000 | — | 410,000 | 4,909,000 | 42,000 | 4,951,000 | 3,848,000 | 5,135,000 |
| 1907–08 - | 6,434,000 | 12,000 | 6,446,000 | 12,000 | — | 12,000 | 6,422,000 | 12,000 | 6,434,000 | 2,897,000 | 7,385,000 |
| 1908–09 - | 1,079,000 | — | 1,079,000 | 239,000 | 215,000 | 454,000 | 840,000 | — *215,000* | 625,000 | 86,000 | 3,432,000 |
| 1909–10 - | 9,232,000 | 9,000 | 9,241,000 | 26,000 | 2,000 | 28,000 | 9,206,000 | 7,000 | 9,213,000 | 6,425,000 | 2,874,000 |
| 1910–11 - | 8,540,000 | — | 8,540,000 | 378,000 | — | 378,000 | 8,162,000 | — | 8,162,000 | 6,484,000 | 8,103,000 |
| 1911–12 - | 18,342,000 | — | 18,342,000 | 114,000 | — | 114,000 | 18,228,000 | — | 18,228,000 | 15,828,000 | 8,884,000 |
| 1912–13 - | 17,795,000 | — | 17,795,000 | 630,000 | 1,929,000 | 2,559,000 | 17,165,000 | — *1,929,000* | 15,236,000 | 19,963,000 | 11,101,000 |
| Total - | 97,359,000 (12 years.) | 114,000 (12 years.) | 97,473,000 (12 years.) | 3,777,000 (12 years.) | 19,888,000 (12 years.) | 23,665,000 (12 years.) | 93,582,000 (12 years.) | — *19,774,000* (12 years.) | 73,808,000 (12 years.) | — | 64,815,000 (14 years.) |

# APPENDIX VII.

## MEMORANDUM ON THE SALE OF COUNCIL BILLS AND TELEGRAPHIC TRANSFERS SUBMITTED BY MR. F. W. NEWMARCH, FINANCIAL SECRETARY.

The method of drawing funds from India to meet the Home charges, first of the East India Company, and later of the Secretary of State for India in Council, by means of Bills of Exchange on India, dates back from the early part of the last century. It was mooted in correspondence between the Court of Directors and the Government of India in 1813; it appears to have been practised, though somewhat intermittently, from 1834 down to the time of the Indian Mutiny, and, after an almost entire suspension in the years 1857–62, it was resumed in the latter year, and has been almost continuous ever since.

2. Sales of the Secretary of State's Bills were at first made (1862) monthly, and at a fixed rate of exchange. By a series of changes, fortnightly and then weekly sales were substituted for monthly ones; allotments to the highest bidder took the place of sales at a fixed price; tenders were invited (1876) for telegraphic transfers as well as for bills, on India; reductions were made in the minimum fraction* of a penny per rupee in the price at which tenders would be received; and applications were invited and received for bills and telegraphic transfers on dates intermediate between the regular fortnightly or weekly sales. Bills and transfers so sold are described as "Intermediates" or "Specials."

3. The present procedure is as follows:—On each Wednesday, a notice is exhibited at the Bank of England inviting tenders, to be submitted on the following Wednesday, for Bills of Exchange and Telegraphic Transfers on the Government of India, the Government of Madras, and the Government of Bombay. The notice states a limit which the aggregate allotments will not exceed. The tenders are opened at the Bank of England at one o'clock on the day of submission in the presence of the Governor or Deputy Governor, or both, of the Bank, with one or two of the permanent staff of the Bank; generally two members, or at least one, of the Council of the Secretary of State for India, and the Financial Secretary or the Assistant Financial Secretary of the India Office.

4. The Secretary of State does not bind himself to allot the whole amount mentioned in the notice. As a matter of practice, he does not accept any applications at prices lower than 1*s.* $3\frac{29}{32}$*d.* for Bills and 1*s.* $3\frac{15}{16}$*d.* for Telegraphic Transfers. As to a maximum price, *see* paras. 22–27.

5. The price charged for Telegraphic Transfers is ordinarily higher by $\frac{1}{32}$*d.* per rupee ($\frac{1}{16}$*d.* when either the Calcutta or the Bombay Bank rate exceeds 8† per cent.) than that charged for bills. Thus tenders for Telegraphic Transfers at 1*s.* $4\frac{1}{32}$*d.* (or at 1*s.* $4\frac{1}{16}$*d.* with Bank rate 9 per cent. or upwards) rank for allotment with tenders for bills at 1*s.* 4*d.* and so on.

6. Subject to this differentiation and to the conditions mentioned in para. 4, allotment is made to the highest bidders, and when the total amount tendered for exceeds the amount offered, allotment is made *pro ratâ*.

7. When the tenders received on a Wednesday have been dealt with, the amount to be offered for tender on the following Wednesday is decided upon. This involves considerations of the average amount required to be drawn weekly up to the end of the financial year so as to work up to the estimate—Budget or Revised—for the year (but see paras. 15 and 16), of the strength or weakness of the market, crop and trade conditions, and so on.

8. The amount is also decided up to which applications for Intermediate Bills or Transfers will be accepted up to the following Wednesday, at prices higher by $\frac{1}{32}$*d.* per rupee for Bills and Transfers than those at which allotments have just been made (see, however, para. 27).

* At first (January 1862) a farthing; reduced to $\frac{1}{8}$th in March 1862, to $\frac{1}{16}$th in January 1875, and to $\frac{1}{32}$nd in 1882.

† See note to paragraph 26.

9. When, as frequently happens, those allotments have been made at more than one price for Bills and for Telegraphic Transfers respectively, the prices fixed for "Intermediates" may be $\frac{1}{32}d.$ above the higher ones, or above the lower ones, at which those allotments have been made; but they must be $\frac{1}{32}d.$ higher than the lowest prices at which allotments have been made.

10. The allotments made each Wednesday, the amount announced to be tendered for on the following Wednesday, and the arrangements made for the sale of "Intermediates," are laid before the next meeting of the Finance Committee (usually on the same day), and subsequently before the Council of the Secretary of State, for approval, together with particulars of the amount sold since the beginning of the financial year, the amount remaining to be sold so as to work up to the estimate of the financial year, and any other information having an important bearing upon future sales.

11. Since 1905 Telegraphic Transfers on India have sometimes been issued in payment for sovereigns which the Secretary of State has purchased in transit from Australia or from Egypt to India. This practice has been resorted to as a means of checking an excessive accumulation of sovereigns in the Paper Currency Reserve in India and obviating the expense entailed in relieving the accumulation by shipping them to London (*cf.* para. 23 of the Note on the Paper Currency Reserve, page 242.

Table No. 1 (page 227) gives the amounts of drawings and the average rate of exchange at which they were effected for each year from 1862–3 to the present time. The published regulations governing the sale of Bills and Transfers and the conditions under which sovereigns are sometimes purchased in transit to India against Telegraphic Transfers will be found printed in their present form as Appendix A. (pages 228–9).

12. The method of transferring funds from the treasuries of the Government of India to that of the Secretary of State on a large scale by the sale of Council drafts on India is rendered possible by the fact that India has ordinarily a very large trade balance in her favour. Except in years of very deficient crops and unfavourable trade this balance is so large as to be only partly met by the remittances which banks and commercial houses are enabled to make to India by purchasing the Secretary of State's drafts; a considerable portion of the world's debt to India remains to be discharged by other means. Before the closing of the Indian Mints to the free coinage of silver in 1893 this supplemental remittance was effected by shipments of silver to India to be coined into rupees; since the closing of the Mints it has taken the form of shipments of sovereigns which are received at the Indian Mints and Treasuries in exchange for rupees at the rate of 15 rupees to 1*l.*

13. So long as the amount which the Secretary of State requires to draw from India by means of his Council drafts is well within the amount owing to India in settlement of the balance of trade in her favour, and so long as the Secretary of State sells his drafts at rates at which they are not a more expensive mode of remittance (see paragraph 20 below) than shipments of sovereigns to India, he can have no difficulty in drawing the funds he requires and maintaining exchange at the rate of 1*s.* 4*d.* to the rupee. These conditions have been fulfilled from 1899 down to the present time* with the exception of the period covered by the closing months of 1907 and a part of 1908. The crisis was made unusually severe by the effects of a very deficient monsoon in 1907, followed by an extraordinarily acute depression of trade over the whole world, towards the end of the same year.

14. The present system of regulating the amount of the drawings of each year, which has been in force for many years, is as follows:—The Government of India, in preparing their Budget for a coming year, frame their estimate of the amount which, after meeting the various other anticipated demands upon their treasury balances and providing for the retention of sufficient balances at the close of the year, they anticipate that they will be able to remit to the Secretary of State during the year through the medium of his sales of Council Bills, towards defraying the expenditure

* See appended Table IV., pages 234–6.

of the India Office on revenue and capital account. In this estimate account is necessarily taken of the amount which can advantageously be raised by borrowing in India towards providing for capital expenditure. (It may be remarked, incidentally, that whereas until recently the sterling loans of the Secretary of State could be issued in London more cheaply than the Rupee loans of the Government of India in that country, of late years the tendency has been in the opposite direction. Thus, in 1912 the 3½ per cent. loan of the Government of India for 3 crores of rupees was issued at an average price of 96⅛, whereas the India sterling loan for 3,000,000*l.*, underwritten, was issued at 93.)

15. The Budget estimate of drawings for the year having been arrived at as described in the last paragraph, their actual distribution over the twelve months is regulated as follows :—The Indian year, as is well known, is divided broadly into two seasons, the busy season, extending roughly from the 1st October to the end of March, and the dull season extending from about the beginning of April to about the end of September. Thus the financial year begins with the dull season, during which the demand for the Secretary of State's Bills as a means of remittance of funds by the public from London to India is less strong than during the autumn and winter. The difference between the two seasons in this respect is illustrated by the attached Table No. III. (page 233).

16. In a year of favourable seasons and great trade activity it might be possible (if those favourable conditions could be foreseen) for the Secretary of State to restrict his drawings during the first half of the financial year, *i.e.*, the dull season, to an almost insignificant amount, and to meet almost the whole of his requirements during the second half, *i.e.*, the busy season, when he might sell his drafts at a higher rate than they would command in the dull season. But in carrying out this apparently profitable policy he is limited by the following considerations :—(1) he requires funds of considerable amount to meet current outgoings during the first as well as the second half of the financial year ; (2) the funds which he draws from India in the early part of the financial year, if not immediately required, earn interest in this country, whereas in India no profitable use would be found for them under other than exceptional conditions, so that the profit derived from lending out these funds, though sometimes at a low rate of interest, must be counted as a set off to the somewhat higher rate of exchange at which they can be remitted home in the later months of the financial year as compared with the earlier ones ; (3) a good market for Council Bills in the winter months cannot be counted upon until the monsoon has declared itself ; the experience of 1907–8 (see Table III., page 233) illustrates this, and (4) the market is full of surprises ; one must always be prepared for the unexpected. This is illustrated by a comparison of the years 1911–12 and 1912–13. In both years the monsoon was good, in 1912–13 if anything more satisfactory than in 1911–12, and giving prospect of at least as active a winter business as that of 1911–12. But after a short spell of very keen bidding for the Secretary of State's drafts in December 1912 the demand fell off in a remarkable manner, as indicated by Table V., page 237, and chart attached thereto. (5) If the drawings for the year exceed the estimate, the excess proceeds can be used for the reduction or avoidance of debt, either in the year in which they are received or in the next year (*see* para. 19).

17. It is possible, after the event, to attribute a reduced demand such as occurred in 1912–13 to a combination of causes, such as reduced exports of opium, smaller demand for rice from China, deficient rains in the north of India in January–February, the near eastern situation, stringency in the London Money Market, and so on ; but the cumulative effects of these causes could not be gauged at the beginning of December 1912, still less could they be foreseen at the earlier date when, after a good monsoon was assured, the prospect of an active winter business seemed tolerably certain. The inference to be drawn from cases of this kind seems to be that in the regulation of the sales of the Secretary of State's drafts the safe course is to take advantage of a moderately good demand for remittance, when it shows itself, during the first half of the financial year, or dull season, rather than to rely too much on selling the great bulk of the

drafts of the year at a higher rate of exchange during the last few months of it.

18. Some of the critics of the India Office seem to think that the Secretary of State should limit his drawings in two ways, viz., (1) he should not draw more than the amount that he has budgeted for in any year, and (2) he should not sell his drafts materially below gold point, meaning the rate of exchange at which sovereigns are liable to be taken from the Bank of England for shipment to India in competition with his drafts. The rate of exchange at which this is liable to happen is assumed to be 1*s.* $4\frac{5}{32}$*d.* per rupee for Telegraphic Transfers and 1*s.* $4\frac{1}{8}$*d.* for Council Bills.

19. Both these propositions are open to objections. The first takes no account of the cases where, owing to a good monsoon and general prosperity, the Government of India find themselves in a position towards the end of a financial year to remit home funds far in excess of what they could expect to remit when the estimates of the year were framed. Such excess funds are properly applicable to the reduction of the amount which the Secretary of State would be otherwise obliged to borrow to meet capital expenditure. In the interval before being so used their possession by the Secretary of State secures him *pro tanto* against the consequences of a possible fall in exchange.

20. The second proposition is open to the objection that sovereigns flow into India freely at certain seasons and under certain conditions from Australia and from Egypt when the rates of exchange which the Secretary of State's Bills and Transfers will command are materially below those regarded as "gold point." This may be seen from Table VI. (page 238) which shows that during the five months May to September 1912 there was a net import of £7,662,535 in sovereigns into India, while the Secretary of State's drafts were sold almost entirely at rates of 1*s.* $4\frac{1}{32}$*d.* and 1*s.* $4\frac{1}{16}$*d.* for Bills and Transfers respectively. There is excellent authority for saying that sovereigns are sometimes shipped from Australia and from Egypt to India at a price which represents only the equivalent of Secretary of State's Bills at slightly less than 1*s.* $4\frac{1}{32}$*d.* Experience indeed shows that even from London sovereigns are liable to be shipped to India in competition with Council Bills at 1*s.* $4\frac{3}{32}$*d.*, if not lower.

Thus if the Secretary of State were to hold out for prices of 1*s.* $4\frac{1}{8}$*d.* and 1*s.* $4\frac{5}{32}$*d.* for his Bills and Transfers respectively he would even in a very busy season run the risk of losing his market for remittance; he would cause the Paper Currency Reserve in India to become overloaded with sovereigns, and then, whether for the purpose of relieving its repletion or of meeting his own Treasury requirements, he would be obliged to bring sovereigns home from India at the cost of freight, insurance, &c. It is clearly more advantageous to draw the funds which he requires to draw from India, and to avoid excessive accumulations of sovereigns there, by selling his drafts at a slightly lower rate; though it is right that the rate should be pitched as high as is consistent with the attainment of those two objects.

21. Sometimes, especially in seasons of active trade, the demand for the Secretary of State's drafts on India far exceeds the amount that he can draw from the treasuries of the Government of India without reducing their balances below a safe limit. The question then arises whether he should restrict his drafts to the amount that can conveniently be drawn from the Treasury balances in India, and allow the balance of the trade demand to satisfy itself by shipments of sovereigns to India, or whether by the use of other resources to be referred to below (see paragraph 22), he should continue to sell drafts beyond his actual immediate needs to meet the requirements of trade. The inconvenience of causing sovereigns to accumulate beyond a certain point in the Paper Currency Reserve in India has already been referred to. The injurious effects on Indian trade of a cessation of the Secretary of State's sales of Bills and Telegraphic Transfers may be explained as follows:—The situation contemplated is naturally most likely to arise towards the close of the financial year, *i.e.*, in January, February or early in March. At that season the demand for remittance to India is usually strongest. It may become acute very suddenly. The Secretary of State's Telegraphic Transfers afford the means, which no other mode of remittance does,

of relieving in a very short space of time a money stringency which otherwise might become serious, even disastrous to Indian trade. Thus (Command Paper 6619 of 1913, page 4) in 16 days in January-February 1912, Telegraphic Transfers on India were sold for over £3,500,000, enabling that sum ($5\frac{1}{4}$ crores of rupees) to be liberated from Government treasuries and passed into the hands of the public. But had the shipment of sovereigns from London been the only method of remittance available, not a single sovereign's worth of rupees could have been released in India by that method during the same period, and consignments from Egypt and Australia were, at the time, very small.

22. This question of the propriety of selling Council drafts for the convenience of trade and apart from the actual immediate requirements for India Office disbursements, engaged attention so long ago as the end of 1897. To get over the inability of the Government of India to meet from their Treasury balances drafts on India of sufficient amount to satisfy the trade demand and relieve the stringency of the Indian money markets (the Calcutta and Bombay Bank rates being at the time 11 and 12 per cent. respectively) an Act of the Indian Legislature was passed (Act II. of 1898)* authorising the issue in India of Paper Currency notes against gold held by the Secretary of State in Council as part of the Paper Currency Reserve in London. At the same time the Secretary of State issued a notice (21st January 1898) that he was prepared to sell until further notice Telegraphic Transfers on India at a price not exceeding 1*s.* $4\frac{5}{32}$*d.* per rupee. From the point of view of the public the effect of this was to enable banks and merchants in India to obtain rupees from the hands of Government at a price about equivalent (during the prevalence of the rates of interest mentioned) to that at which (allowing for interest on money besides shipping and insurance charges) they would have been able to obtain them in exchange for sovereigns shipped from London; but while this mode of remittance was not at the time appreciably cheaper, if at all, than that of shipping sovereigns, (and would now be dearer at any time when the rate of interest in India is 8 per cent. or less) it had the advantage, of the very greatest importance at a time of extreme monetary stringency, of being much the more expeditious.

23. From the point of view of Government the effect of the transaction was, that the Secretary of State by depositing in gold at the Bank in England a given sum from the proceeds of his sales of Telegraphic Transfers as part of the Paper Currency Reserve enabled the Government of India to issue notes of corresponding amount against such gold, wherewith to meet the Telegraphic Transfers drawn against them.

24. The convenience to trade interests resulting from this arrangement was very great; and when in January 1900 the Secretary of State felt obliged, owing to apprehensions of a dangerous reduction of the quantity of rupees held by the Government of India (Financial Despatch to India, No. 29 of 1900)†, to withdraw the notice of 21st January 1898 (sale of Telegraphic Transfers at 1*s.* $4\frac{5}{32}$*d.* until further notice) the announcement was received with consternation in commercial and banking circles in India. The Associated Exchange Banks, Bombay, telegraphed to the Government of India (16th January 1900)† that "acute financial stringency prevails, caused by sudden "withdrawal without previous notice of facility granted 21st January 1898. "Banks respectfully protest against the sudden withdrawal and beg immediate "steps be taken to relieve critical situation and avert panic." Protests were also received from the Bombay and Bengal Chambers of Commerce, with applications for temporary loans to the Presidency banks, but these the Government of India were unable to grant.

25. Although the Secretary of State withdrew his offer to sell Telegraphic Transfers at 1*s.* $4\frac{5}{32}$*d.*, he continued to sell at higher prices, indeed as high as 1*s.* $4\frac{3}{8}$*d.* To this action the Government of India objected; they desired

* The duration of this Act was only six months. Its provisions were extended for a further period of two years by Act VIII. of 1898, and for a further two years by Act VIII. of 1900, which also gave the Secretary of State power to expend the gold held by him as part of the Paper Currency Reserve in the purchase of silver for coinage. The provisions of this Act were made permanent by Act IX. of 1902.

† Not printed.

"to see exchange remain steady *within* the gold point," and added that "this has universally been understood to be the settled intention of Government." The demand for remittance to India satisfied itself for the time being, though at the cost of severe monetary stringency in the Indian markets, and the evils attendant thereon, by imports of gold into India; and the question of again selling drafts on India without limit at a maximum price did not recur until January 1904, when exchange again reached "gold point."

26. The Secretary of State then notified his readiness to sell "intermediate" Bills until further notice at a rate not exceeding 1*s.* $4\frac{1}{8}d.$ per rupee, and as the price of Telegraphic Transfers was at that time fixed at $\frac{1}{16}$th* of a penny above that of Bills, the price at which applications for Telegraphic Transfers were accepted without limit became 1*s.* $4\frac{3}{16}d.$ instead of 1*s.* $4\frac{5}{32}d.$, the rate announced in 1898.

27. The practice since 1904 has been as follows:—(1) invariably to sell Bills without limit when the price is as high as 1*s.* $4\frac{1}{8}d.$; (2) to sell Transfers without limit at 1*s.* $4\frac{5}{32}d.$ if the Indian bank rates do not exceed a certain rate (6 per cent. prior to January 1906, 8 per cent. subsequently (see footnote); and at 1*s.* $4\frac{3}{16}d.$ if they exceed that rate. These rates (see para. 20 above) are by no means prohibitive to the export of sovereigns from London to India, still less to their export thither from Australia or Egypt. On the contrary they are so high as almost to place the Secretary of State's drafts out of competition with the remittance of sovereigns, except at times of great monetary stringency in India, when rapid transmission of funds to that quarter is the consideration of supreme importance. The question whether by restricting sales of Council drafts to allow exchange to reach so-called "gold point," or to sell freely, a course which by no means prevents the concurrent importation of sovereigns into India, is one which must be decided month by month and week by week, according to the trade demand for telegraphic transfers and the urgency of the need for drawing funds from the treasuries of the Government of India to that of the Secretary of State.

28. The governing considerations, stated in order of importance, seem to be the following:—

(1) To draw from the treasuries of the Government of India during the financial year the amount that has been laid down in the Budget as necessary to carry out the Ways and Means programme of the year.

(2) To draw, if practicable, such further amount as may be required to pay for any purchases of silver that may be made for coinage during the year, not having been provided for in the Budget. (Such purchases may in the alternative be paid for from gold held in the currency reserve in London, as provided for by India Act VIII. of 1900, when the amount of gold so held is sufficient; but if the market for the Secretary of State's Bills is strong enough to enable him to pay for his purchases of silver by additional sales of Bills, there is an advantage in doing so and keeping the reserve of gold intact, to support exchange in a crisis like that of 1907–08, see paragraph 13).

(3) To draw such further amount from the treasury balances of the Government of India as an unexpectedly prosperous season may enable them to spare, to be used towards the reduction or avoidance of debt, and as the state of the market for the Secretary of State's drafts may allow to be drawn at a reasonably high rate of exchange.

* The difference is calculated to represent the approximate cost of interest on a rupee in India for the period intervening between the date when a Telegraphic Transfer is payable there, and that when a Bill issued on the same date is payable. At the date in question (1904) it was the practice to make a difference of $\frac{1}{32}d.$ between the prices of Bills and Transfers when the Indian bank rates did not exceed 6 per cent., and a difference of $\frac{1}{16}d.$ when the bank rates were higher. In 1906, in view of the reduction which had taken place in the time occupied by the mails from this country in reaching India, and in the freight on gold, it became the practice only to make a difference of $\frac{1}{16}d.$ between the prices of Bills and Transfers when the Indian bank rates reached 9 per cent.

(4) To allow a sufficient amount of sovereigns to flow into India to supply the demands of the public.

(5) To sell bills and transfers, if necessary, beyond the amount required under (1), (2), and (3), to meet the convenience of trade, *i.e.*, to avert an injurious stringency of money in the markets of India.

29. The relative importance of considerations Nos. 4 and 5 must be largely dependent on the conditions existing at any given time. When the stock of gold held in the Paper Currency Reserve in India, which the Government are prepared to release freely in exchange for notes or silver, is very large, the need for restricting sales of Council drafts so far as to allow of a considerable influx of gold into the country is clearly less important than when the stock so held is low. Similarly the question whether to pay for purchases of silver from the proceeds of sales of bills, sold for the purpose, or from gold in the Paper Currency Reserve, must depend, to some extent, on the quantity so held.

30. The importance of selling drafts to meet the convenience of trade has been referred to above (paragraph 21) and the consternation caused in commercial circles by the Secretary of State's withdrawal in January 1900 of his offer to sell Telegraphic Transfers at a price not exceeding 1*s.* $4\frac{5}{32}$*d.* has been described (paragraph 24). The practice is sometimes misrepresented as being adopted in the interests of the City of London, not those of India. But the events of 1900 afford an answer to this charge. Further, the practice is referred to regularly in the Financial Statements of the Government of India as part of the settled financial policy of Government (see Command Paper, No. 6,619, 1913, IV.) and meets with little or no criticism in the Legislative Council. There is abundant evidence that its advantages are appreciated by the great majority of the business community in India, and questioned only by a few.

Its advantages may be summed up as follows :—

(1) It serves to avert or relieve extreme stringency in the money markets of India, which would be detrimental to the commercial prosperity of the country.

(2) It serves to check excessive accumulations of gold in the Paper Currency Reserve in India which might otherwise have to be lightened by expensive methods (see above, paragraph 20).

(3) It serves, sometimes, to avert extreme stringency in the London Money Market which would be created if the Secretary of State, by refusing to sell drafts for the convenience of trade, forced large quantities of sovereigns to be taken from London for India. This consideration may not be valued by some of the critics of the policy of selling drafts freely, because their attitude implies an underlying assumption that what is beneficial to the interests of London cannot be good for India; but those who approach the question with an open mind will probably recognise that any serious disturbance to the greatest money market of the world cannot but be injurious to the trade of India, and to her interests as a frequent borrower in the London market, so that free sales of Council drafts for the purpose of averting such a disturbance may, at times, be fully justified, and indeed urgently required, in the interests of India.

31. It has been shown above (paragraph 22) how the Indian Paper Currency Act, by empowering the Secretary of State to hold a portion of the Indian Paper Currency Reserve in the shape of gold in London, enables him to meet a demand for Council drafts on India at times when it might not be convenient or possible for the Government of India to meet them from its treasuries. This power introduces a valuable element of elasticity into the Indian currency system. It would not, of course, be desirable that more than a moderate portion of the total metallic reserve should be held in London, in gold, but, subject to that proviso, the system is useful in connection, not only with the sale of Council drafts, but also with the purchase of silver and as a support of exchange. The latter advantage arises in this way. At a time when the state of exchange, as in the crisis of

1908–9, does not permit of the Secretary of State drawing funds from India to meet his Treasury requirements by the sale of Council Bills, he may release funds for the purpose from the portion of the Paper Currency Reserve held in London, the Government of India making simultaneously a corresponding transfer of rupees or gold from the Treasury balances to Paper Currency Reserve, so that the metallic portion of the latter be kept intact, or cancelling a portion of the notes held in the Treasury balances. The larger the amount of gold accumulated in the Paper Currency Reserve in London the greater the extent to which the Secretary of State will be able to supplement from this quarter the resources towards meeting an exchange crisis afforded by the Gold Standard Reserve. It is hardly necessary to add that accumulated balances in his Treasury will serve towards the same end.

32. A further purpose served by the sale of Council Bills when the demand for these is sufficiently strong is the remittance to this country of the profits on the coinage of rupees, on account of the Gold Standard Reserve 9,271,813*l.*, were so drawn in the years 1901–2 to 1907–8. During the exchange crisis of 1907–9 bills on London were sold by the Government of India and met by the Secretary of State in Council from Gold StandardReserve, to the amount of 8,058,000*l.*, the Government of India setting aside an equivalent sum from the proceeds of their sales of bills in rupees. Thus the effect of the transaction was to transfer Gold Standard Reserve funds amounting to 8,058,000*l.* from London to India. When exchange recovered after the crisis of 1907–9, the sales of Council drafts were again utilised, after meeting the Treasury requirements of the Secretary of State, to re-transfer Gold Standard Reserve funds from India to London, and the amount re-transferred, and transferred in addition,* in the years 1908–9—1910–11 was 10,181,487*l.* During the year 1912–13 there has been a remittance of 1,200,000*l.*, profits on coinage, fromIndia to England; this has been effected not by sales of Council Bills but by transfers between Gold Standard Reserve and Currency Reserve, *i.e.*, 1,200,000*l.* has been transferred, in gold, from Paper Currency Reserve to Gold Standard Reserve in London, and a corresponding sum has been transferred from Gold Standard Reserve to Paper Currency Reserve in India. This affords a further illustration of the elasticity introduced into the currency system by the holding of a part of the Paper Currency Reserve in London.

33. The portion of the Gold Standard Reserve held in rupees in India has been utilised on one or two occasions in the past as a resource from which the Government of India might borrow, paying interest on the loan, in order to meet the Secretary of State's drawings when it has not been convenient to meet them from Treasury balances or through currency (*i.e.*, by the Secretary of State setting aside gold from the proceeds of his sales, as an addition to the Paper Currency Reserve, and the Government of India taking out notes against the gold set aside). But it has been recognised and put on record in a Despatch of the Secretary of State to the Government of India that such utilisation of the Gold Standard Reserve funds in their hands must be treated as entirely exceptional and only to be resorted to in cases of extreme emergency.

34. It may be useful to conclude this note with some general remarks on the working of the system of drawing funds from India by means of Council drafts since 1899, when the sovereign was made legal tender in India, as compared with its working before that date.

35. Down to 1872–3 the rate of exchange at which the Secretary of State was able to sell his drafts did not fall materially below 2*s.* the rupee. In that year the average rate was 1*s.* 10·815*d.* From thence onwards the decline in exchange was a continuous source of anxiety and disturbance to those responsible for the finances of India. In 16 out of 27 years ending with 1898–9, the Secretary of State was unable to realise by the sale of Bills and Transfers the amount that he had budgeted to receive (*see* Table II., page 232), and on several occasions he was compelled to suspend the sales altogether.

* Prior to the crisis of 1907–8 a portion of the reserve amounting to 4,000,000*l.* had been held in rupees (6 crores) in India. This portion was reduced in 1910–11 to 290 lakhs of rupees = 1,933,333*l.*

36. The worst effect of the decline in exchange was felt in the increased amount which had to be drawn from the revenues of India to meet the Home charges. Thus, in the year 1895–6, the sum realised by the sale of Council drafts was 17,664,492*l.*, representing Rs. 31,08,54,373, at an average rate of 1*s.* 1·638*d.* per rupee. Had the same sterling sum been remitted at the average rate obtaining in 1872–3, the sum in rupees representing the remittance would have been Rs. 18,63,17,925 instead of Rs. 31,08,54,373, a difference of Rs. 12,45,36,448. Moreover the Government of India was confronted with the prospect of a still further fall in exchange* and a further increase in the burden of the Home charges.

Other burdens imposed upon the revenues of India by the fall in exchange were (1) the cost of granting exchange compensation allowance; (2) enhanced charge for the pay of British troops in India, consequent on the fall in exchange; (3) the concession of "privileged" rates of exchange for the conversion of (*a*) pensions expressed in rupees, when paid in countries where the rupee is not legal tender (1*s.* 9*d.*) and (*b*) furlough allowances to civil officers taking leave to Europe (at 1*s.* 6*d.* per rupee).

The additional charge under heads (1) and (2) was a very uncertain amount, varying according to the rate of exchange; in 1893–94 these items were estimated at 63 and 83 lakhs of rupees respectively; the cost of concessions 3 (*a*) and 3 (*b*) was also variable, the former costing about 14,000*l.* in the year in which it was imposed (1890–1), and the latter (1893–4) about 27,000*l.*

37. Indirectly also the fall in exchange has imposed further burdens on the exchequer by contributing to an extent which it would be impossible to calculate in conjunction with other causes such as the increased cost of living in India, to force upon Government the necessity of increasing salaries of various appointments and branches of the Service.

To meet these burdens additional taxation had to be imposed in the period 1885–1895, estimated to yield in the aggregate about 530 lakhs of revenue (equivalent at the *present* rate of exchange to about 3,533,000*l.*), as follows:—

1886–87, an Income Tax, estimated to yield 102 lakhs of rupees per annum.
1888–89, increased salt duties, estimated to yield 172½ lakhs of rupees per annum.
1888–89, import duty on petroleum and minor measures affecting Burma, 20 lakhs of rupees per annum.
1894–95, enhanced and widened Customs duties, 135 lakhs of rupees per annum.
1895–96, cotton import and Excise duties, 145½ lakhs of rupees per annum.

A total estimated increase of revenue by 575 lakhs of rupees; against which, however, has to be set off a net reduction in cotton duties estimated at about 45 lakhs, effected in January 1896.

38. The steps by which exchange was fixed at a stable rate of 1*s.* 4*d.* per rupee had the effect of placing a limit to burdens on the exchequer which otherwise seemed to possess indefinite and incalculable possibilities of expansion.

39. Since exchange was placed on its present basis one of the most serious uncertainties in Indian budgeting has been removed. In only three years out of 14, since 1898–9, has the Secretary of State been unable to realise by the sale of Bills the amount for which he budgeted (*see* Table II., page 232).

40. There is abundant expert testimony to the effect that Indian trade generally has benefited by stability of exchange. Exports do not appear (*see* Table IV., pages 234–6) to have been injuriously affected, as some critics of the

* As a matter of fact the price of silver has fallen in the interval since the introduction of the present currency system as low as 21$\frac{11}{16}$*d.* per oz., a price at which the out-turn cost of a rupee was a little over 8*d.*; while at the highest price of silver reached in the same period, 33$\frac{1}{8}$*d.* per oz. the cost of the rupee would be less than 1*s.* 1*d.*

present currency policy predicted that they would be, by the establishment of a rate of exchange much above the intrinsic silver value of the rupee. Revenue has shown a steady expansion, enabling successive reductions of taxation to be effected, viz.:—

| | | £ |
|---|---|---|
| (1) | 18 March 1903. Reduction of salt tax, estimated sacrifice of revenue | 1,095,000 |
| (2) | 1903–4. Exemption from Income Tax of private incomes below Rs. 1,000 per annum | 240,000 |
| (3) | 1905. Reduction of salt tax | 1,220,000 |
| (4) | 1905. Abolition of famine cesses, postal reductions | 200,000 |
| (5) | 1906. Abolition of certain land cesses | 548,000 |
| (6) | 1907. Reduction of salt tax | 1,267,000 |
| (7) | 1907. Postal concessions | 146,000 |
| | Total | £4,716,000 |

41. The one addition to taxation to be set against these repeated remissions of imposts made since the introduction of the present currency system, is the enhancement of certain customs, excise and stamp duties effected in 1910.

42. This was estimated to yield additional revenue amounting to 1,126,000*l.* and was resorted to in view of the approaching reduction and gradual extinction of the opium revenue.

43. The net results are that, in the period dating from the full introduction of the present currency system (1899) there has been a net reduction of taxation estimated at about 3½ millions sterling, coincident with a loss of revenue from opium amounting to nearly 2,000,000*l.**; and the Government of India are able, on the basis of this reduction of revenue, to budget for a surplus of 1,326,300*l.* in 1913–4.

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* Difference in rupees between net revenue 1898–9, and Budget estimate, 1913–4, converted at 1*s.* 4*d.* per rupee, as follows:—

| | £ |
|---|---|
| 1898–9 | 2,230,308 |
| Budget 1913–4 | 309,600 |
| | £1,920,708 |

The loss of revenue is much greater in comparison with the figures of more recent years, *e.g.*, in comparison with the net revenue of 1910–11 it is nearly 6,000,000*l.*

# Table I.

## COUNCIL BILLS AND TELEGRAPHIC TRANSFERS.

AMOUNTS DRAWN ON INDIA DURING THE PERIOD FROM 1862–63 TO 1912–13, WITH THE AVERAGE RATE OF EXCHANGE.

| Year. | Amount. | Average rate. | Year. | Amount. | Average rate. |
|---|---|---|---|---|---|
| | £ | s. d. | | £ | s. d. |
| 1862–3 | 6,641,576 | 1 11 7/8 | 1888–9 | 14,262,859 | 1 4·379 |
| 1863–4 | 8,979,521 | 1 11 7/8 | 1889–90 | 15,474,496 | 1 4·566 |
| 1864–5 | 6,789,473 | 1 11 7/8 | 1890–1 | 15,969,034 | 1 6·089 |
| 1865–6 | 6,966,116 | 1 11 3/4 | 1891–2 | 16,093,854 | 1 4·733 |
| 1866–7 | 5,067,589 | 1 11 | 1892–3 | 16,532,215 | 1 2·985 |
| 1867–8 | 4,137,285 | 1 11 1/8 | 1893–4 | 9,530,235 | 1 2·547 |
| 1868–9 | 3,705,741 | 1 11 1/8 | 1894–5 | 16,905,102 | 1 1·100 |
| 1869–70 | 6,980,122 | 1 11 1/4 | 1895–6 | 17,664,492 | 1 1·638 |
| 1870–1 | 8,443,509 | 1 10 3/8 | 1896–7 | 15,526,547 | 1 2·450 |
| 1871–2 | 10,310,339 | 1 11 1/8 | 1897–8 | 9,506,077 | 1 3·406 |
| 1872–3 | 13,939,095 | 1 10·754 | 1898–9 | 18,692,377 | 1 3·978 |
| 1873–4 | 13,285,678 | 1 10·351 | 1899–1900 | 19,067,022 | 1 4·068 |
| 1874–5 | 10,841,615 | 1 10·156 | 1900–1 | 13,300,277 | 1 3·973 |
| 1875–6 | 12,389,613 | 1 9·626 | 1901–2 | 18,539,071 | 1 3·988 |
| 1876–7 | 12,695,800 | 1 8·508 | 1902–3 | 18,499,946 | 1 4·002 |
| 1877–8 | 10,134,455 | 1 8·791 | 1903–4 | 23,859,303 | 1 4·049 |
| 1878–9 | 13,948,565 | 1 7·794 | 1904–5 | 24,425,553 | 1 4·045 |
| 1879–80 | 15,261,810 | 1 7·961 | 1905–6 | 32,166,973 | 1 4·042 |
| 1880–1 | 15,239,677 | 1 7·956 | 1906–7 | 33,157,196 | 1 4·083 |
| 1881–2 | 18,412,429 | 1 7·895 | 1907–8 | 16,232,062 | 1 4·029 |
| 1882–3 | 15,120,521 | 1 7·525 | 1908–9 | 13,915,426 | 1 3·931 |
| 1883–4 | 17,599,805 | 1 7·536 | 1909–10 | 27,096,586 | 1 4·041 |
| 1884–5 | 13,758,909 | 1 7·308 | 1910–11 | 26,783,303 | 1 4·060 |
| 1885–6 | 10,292,692 | 1 6·254 | 1911–12 | 27,058,550 | 1 4·083 |
| 1886–7 | 12,136,279 | 1 5·441 | 1912–13 | 25,759,796 | 1 4·058 |
| 1887–8 | 15,358,577 | 1 4·898 | | | |

# Appendix A.

## I.

## SALE OF BILLS AND TELEGRAPHIC TRANSFERS ON INDIA.

In supersession of previous notifications, the Secretary of State for India in Council publishes the following particulars as to the method of selling Bills and Telegraphic Transfers on India :—

*Sale of Bills.*

1. The Secretary of State for India in Council is prepared to allot on Wednesday in each week Bills of Exchange on the Government of India, the Government of Madras, or the Government of Bombay, of an aggregate amount not exceeding that announced in a notice which will be previously exhibited at the Bank of England.

2. Tenders for such Bills will be opened at the Bank of England on each Wednesday at 1 o'clock.

3. Tenders must be made on forms which can be obtained on application at the Chief Cashier's Office at the Bank of England. They must be delivered, under cover, at the said office.

4. Any tender may be for the whole amount shown in the announcement or for any portion thereof not being less than Rs. 10,000. The amount of the tender or tenders submitted by or on behalf of any one person, firm, or company must not in the aggregate exceed the amount shown in the announcement. Tenders which appear to the Secretary of State in Council to be submitted in direct or indirect infringement of this rule will be rejected.

5. Each tender must state the rate of exchange at which the applicant is prepared to purchase a Bill or Bills of the amount for which he tenders or any less amount that may be allotted to him. The rate of exchange must be expressed in pence or in pence and a fraction of a penny per rupee; any fraction that is used must be either one thirty-second of a penny or a multiple of one thirty-second of a penny.

6. In the event of two or more tenders being made at the same rate, and the amount to be allotted being less than the amount of both or all, a *pro rata* allotment will ordinarily be made, subject to the condition that no Bill will be granted for a less amount than Rs. 5,000.

7. As soon as practicable after the opening of the tenders the result will be made known at the Bank, and the *maximum* amount to be allotted on the following Wednesday will ordinarily be announced at the same time.

8. On Wednesday afternoon persons who have tendered will, on application at the Chief Cashier's Office, be informed whether any allotment has been made to them.

9. Payment for Bills allotted on a Wednesday must be made on or before the following Tuesday.

10. Those applicants to whom an allotment of Bills has been made will be furnished with a form to be filled up with the particulars of the Bills desired, which must be left at the Chief Cashier's Office before 12 o'clock on the day preceding that on which the Bills are required; the Bills will be delivered next day on payment in cash not later than 2 o'clock.

11. In addition to the tenders mentioned above for Bills to be allotted on Wednesdays at 1 o'clock, applications may be made on any Wednesday after

the result of the allotment has been announced (but not later than 3 o'clock), on Saturday between 11 and 12.30, and on any other day between 11 and 3, at the Chief Cashier's Office of the Bank of England for intermediate Bills drawn on the Government of India, the Government of Madras, or the Government of Bombay. No pledge can be given that such applications will be complied with; but, if intermediate Bills are granted, the following condition will be observed, viz., that if, at the preceding allotment, Bills have been allotted to the full amount previously announced, intermediate Bills will only be granted at rates exceeding by at least one thirty-second of a penny per rupee the minimum price at which an allotment was made. If, however, the minimum price has exceeded 1*s.* $4\frac{3}{32}$*d.* the rupee this condition will not be enforced, as the Secretary of State in Council is prepared to sell until further notice intermediate Bills at 1*s.* $4\frac{1}{8}$*d.* the rupee.

12. If an intermediate Bill is granted on a Tuesday, payment must be made on the same day; if a Bill is granted on any day other than Tuesday, payment must be made not later than the following Tuesday.

*Sale of Telegraphic Transfers.*

13. Applications for Telegraphic Transfers on the Government of India, the Government of Madras, and the Government of Bombay, will be received on behalf of the Secretary of State for India in Council at the Chief Cashier's Office at any time between 11 and 3, except on Saturdays, when the hours are from 11 to 12.30. Those which are received on Wednesday before 1 o'clock will be opened at the same time as the tenders for the weekly allotment of Bills; and, if transfers are then granted, the fact will be announced at the same time and in the same manner as the allotment of Bills. Transfers will be granted only in thousands of rupees, and in no case for less than one lakh; except that an applicant to whom a transfer has been granted at the time of the weekly allotment of bills may be allowed an additional transfer of an amount (in thousands of rupees) less than one lakh, provided that such additional transfer is paid for (at the price fixed for the time being by the Secretary of State in Council) on the same day as the transfer originally granted. Applicants tendering on Wednesday before 1 o'clock both for bills and transfers, may, if they wish it, insert in their tender for transfers a request that, if that tender be not sufficiently large to secure an allotment of one lakh of rupees, it may be increased to the necessary extent by reduction of their tender for Bills.

14. If a transfer is granted on a Tuesday, payment must be made on the same day; if a transfer is granted on any day other than a Tuesday, payment must be made not later than the following Tuesday.

15. The necessary telegram to enable the amount of a transfer to be issued to the recipient in India will be despatched on the day on which payment for the transfer is made at the Bank of England.

*General.*

16. The sales of Bills and Telegraphic Transfers, and the rates at which they have been made, will be from time to time announced at the Bank of England, and the total amount sold up to date since the 1st of April, with the sterling realised, will be similarly announced on each Wednesday morning at 11 o'clock.

17. The Secretary of State in Council, while making the foregoing announcement as regards the practice to be ordinarily pursued, reserves to himself the right of rejecting the whole or any part of any tender and of departing in any respect without previous notice from the terms of this announcement, should circumstances render it expedient.

India Office,
25th August 1909.

## II.

CONDITIONS on which the Secretary of State for India in Council is willing until further notice to purchase Sovereigns in Transit from Australia or Egypt by granting Telegraphic Transfers on Calcutta, Madras, and Bombay.

1. A list is kept at the India Office of banks and firms from whom the Secretary of State is prepared until further notice to purchase sovereigns under these rules for delivery in London.

2. Purchases will not be made from institutions whose head offices are not in the British Empire unless the offer of sale is accompanied by the guarantee of an approved English bank.

3. The sovereigns are to be consigned to the Secretary of State for India in Council, London, and the bills of lading made out in his favour; or, if the sovereigns are not so consigned, the bills of lading are to be endorsed in his favour. In every case the bills of lading must be posted to the Under Secretary of State, India Office, and a letter addressed to him by the seller in the form annexed.

4. Sovereigns consigned to the Secretary of State from Egypt must be shipped in a vessel of a regular line approved by the India Office.

5. The date of issue of the telegraphic transfers and the rate of exchange are subject to the following conditions:—

*A.—In the case of Gold consigned from Australia.*

At the option of the institution tendering the sovereigns, transfers will be granted either—

(1) Ten days after the departure from Fremantle of the vessel in which the sovereigns are shipped, at the rate of 1*s.* 4*d.* the rupee; or

(2) On the day following the departure of the vessel from Fremantle, at the rate of 1*s.* $4\frac{1}{32}$*d.* the rupee.

*B.—In the case of Gold consigned from Egypt.*

At the option of the institution tendering the sovereigns, transfers will be granted either—

(1) On the advertised date of arrival at Bombay of the next Peninsular and Oriental vessel leaving Port Said after the date of shipment of the sovereigns to London, at 1*s.* 4*d.* the rupee; or

(2) On the date of shipment from Egypt to London, at 1*s.* $4\frac{1}{32}$*d.* per rupee.

August 1910.

[*Form of Application opposite.*]

To the Under Secretary of State,
India Office, S.W.

Sir,

With reference to the attached statement of the conditions under which the Secretary of State for India in Council is willing to purchase for delivery in London sovereigns in transit from Australia or Egypt by issuing telegraphic transfers to an equivalent amount, we have to inform you that £_____ in sovereigns has been shipped by us from [*Port of Shipment*]_____ by the S.S. _____ which $\frac{\text{leaves Fremantle}}{\text{left Port Said}}$ on [*date*]_____

The Bills of Lading have been $\frac{\text{made out}}{\text{endorsed}}$ in favour of the Secretary of State for India in Council, and have been posted to the Under Secretary of State, India Office, London.

We have to request that, in payment for these sovereigns, telegraphic transfers to the amounts specified below may be granted on the _____ 191 , in favour of [*Name*]_____ viz. :—

| | Rs. | Rate. | Amount in Sterling. |
|---|---|---|---|
| | | | £ |
| On Calcutta - - | | | |
| On Madras - - - | | | |
| On Bombay - - | | | |
| Total - - | | | |

We hold the Secretary of State in Council covered by the insurance policies noted below which are open to your inspection.

We are, Sir,
Yours faithfully,

PARTICULARS OF INSURANCE POLICIES.

# Table II.

## COUNCIL BILLS AND TELEGRAPHIC TRANSFERS.

COMPARISON OF BUDGET ESTIMATES WITH ACTUAL DRAWINGS, 1872–3 TO 1898–9, AND 1899–1900 TO 1912–13; AND AVERAGE RATES OF EXCHANGE AT WHICH DRAWINGS WERE MADE.

| Year. | Budget Estimate. | Actual Amount. | Comparison with Budget. (+) Excess. (−) *Shortage.* | Average Rate. | Remarks. |
|---|---|---|---|---|---|
| | £ | £ | £ | *s.* *d.* | |
| 1872–73 | 13,000,000 | 13,939,095 | +939,095 | 1 10·754 | |
| 1873–74 | 13,500,000 | 13,285,678 | *−214,322* | 1 10·351 | |
| 1874–75 | 10,000,000 | 10,841,615 | +841,615 | 1 10·156 | |
| 1875–76 | 14,300,000 | 12,389,613 | *−1,910,387* | 1 9·626 | |
| 1876–77 | 13,660,000 | 12,695,800 | *−964,200* | 1 8·508 | |
| 1877–78 | 12,250,000 | 10,134,455 | *−2,115,545** | 1 8·791 | *Famine in India. |
| 1878–79 | 17,000,000 | 13,948,565 | *−3,051,435** | 1 7·794 | |
| 1879–80 | 15,000,000 | 15,261,810 | +261,810 | 1 7·961 | |
| 1880–81 | 16,900,000 | 15,239,677 | *−1,660,323* | 1 7·956 | |
| 1881–82 | 17,200,000 | 18,412,429 | +1,212,429 | 1 7·895 | †Reduction mainly due to unexpected receipt of 1,704,000*l.* on account of capital of Southern Mahratta Railway. |
| 1882–83 | 15,342,000 | 15,120,521 | *−221,479* | 1 7·525 | |
| 1883–84 | 16,300,000 | 17,599,805 | +1,299,805 | 1 7·536 | |
| 1884–85 | 16,500,000 | 13,758,909 | *−2,741,091†* | 1 7·308 | |
| 1885–86 | 13,773,700 | 10,292,692 | *−3,481,008‡* | 1 6·254 | |
| 1886–87 | 13,331,400 | 12,136,279 | *−1,195,121§* | 1 5·441 | ‡Suspension of coinage of Bland dollar recommended by President, United States of America. |
| 1887–88 | 16,250,000 | 15,358,577 | *−891,423§* | 1 4·898 | |
| 1888–89 | 14,000,000 | 14,262,859 | +262,859 | 1 4·379 | |
| 1889–90 | 14,689,900 | 15,474,496 | +784,596 | 1 4·566 | |
| 1890–91 | 14,989,000 | 15,969,034 | +980,034 | 1 6·089 | |
| 1891–92 | 16,000,000 | 16,093,854 | +93,854 | 1 4·733 | §Great depression in trade. |
| 1892–93 | 17,000,000 | 16,532,215 | *−467,785* | 1 2·985 | |
| 1893–94 | 18,700,000 | 9,530,235 | *−9,169,765‖* | 1 2·547 | ‖Indian Mints closed to free coinage. Repeal of purchasing clauses of Sherman Act, United States of America. |
| 1894–95 | 17,000,000 | 16,905,102 | *−94,898* | 1 1·100 | |
| 1895–96 | 17,000,000 | 17,664,492 | +664,492 | 1 1·638 | |
| 1896–97 | 16,500,000 | 15,526,547 | *−973,453* | 1 2·450 | |
| 1897–98 | 13,000,000 | 9,506,077 | *−3,493,923¶* | 1 3·406 | ¶Famine in India. |
| 1898–99 | 16,000,000 | 18,692,377 | +2,692,377 | 1 3·978 | |
| 1899–1900 | 17,000,000 | 19,067,022 | +2,067,022 | 1 4·068 | **Severe failure of crops in 1899. |
| 1900–01 | 16,440,000 | 13,300,277 | *−3,139,723*** | 1 3·973 | |
| 1901–02 | 16,500,000 | 18,539,071 | +2,039,071 | 1 3·988 | |
| 1902–03 | 16,500,000 | 18,499,946 | +1,999,946 | 1 4·002 | |
| 1903–04 | 17,000,000 | 23,859,303 | +6,859,303 | 1 4·049 | |
| 1904–05 | 16,500,000 | 24,425,558 | +7,925,558 | 1 4·045 | |
| 1905–06 | 17,833,000 | 32,166,973 | +14,333,973 | 1 4·042 | |
| 1906–07 | 17,800,000 | 33,157,196 | +15,357,196 | 1 4·083 | |
| 1907–08 | 18,100,000 | 16,232,062 | *−1,867,938††* | 1 4·029 | ††Failure of monsoon, 1907; monetary crisis in America; severe and general trade depression. |
| 1908–09 | 18,500,000 | 13,915,426 | *−4,584,574††* | 1 3·931 | |
| 1909–10 | 16,200,000 | 27,096,586 | +10,896,586 | 1 4·041 | |
| 1910–11 | 15,500,000 | 26,783,303 | +11,283,303 | 1 4·060 | |
| 1911–12 | 17,158,300 | 27,058,550 | +9,900,250 | 1 4·083 | |
| 1912–13 | 15,500,000 | 25,759,706 | +10,259,706 | 1 4·058 | |

For the period 1872–73 to 1898–99 the average difference between the Budget Estimates and the actual amounts drawn was a shortage of 837,525*l.*

For the period 1899–1900 to 1912–13 the average difference was an excess of 5,952,119*l.*

# Table III.

## Bills and Telegraphic Transfers.

Amounts paid for in the First and Second Half of each Financial Year, 1894–95 to 1912–13.

| Year. | April to September. | | Average Rate. | | October to March. | | Average Rate. | |
|---|---|---|---|---|---|---|---|---|
| | Rupees. | Sterling. | | | Rupees. | Sterling. | | |
| | Rs. | £ | *s.* | *d.* | Rs. | £ | *s.* | *d.* |
| 1894–95 | 15,88,44,871 | 8,730,043 | 1 | 1·190 | 15,08,53,927 | 8,175,059 | 1 | 1·006 |
| 1895–96 | 16,62,95,158 | 9,215,992 | 1 | 1·301 | 14,45,59,215 | 8,448,500 | 1 | 2·026 |
| 1896–97 | 16,42,10,913 | 9,654,845 | 1 | 2·111 | 9,36,59,192 | 5,871,702 | 1 | 3·046 |
| 1897–98 | 6,85,20,590 | 4,252,887 | 1 | 2·896 | 7,96,07,420 | 5,253,190 | 1 | 3·837 |
| 1898–99 | 12,94,96,131 | 8,590,394 | 1 | 3·921 | 15,12,67,540 | 10,101,983 | 1 | 4·028 |
| 1899–00 | 12,23,47,402 | 8,157,433 | 1 | 4·002 | 16,24,53,541 | 10,909,589 | 1 | 4·117 |
| 1900–01 | 6,38,06,175 | 4,244,281 | 1 | 3·964 | 13,60,31,518 | 9,055,996 | 1 | 3·977 |
| 1901–02 | 9,61,94,653 | 6,385,759 | 1 | 3·932 | 18,21,06,397 | 12,153,312 | 1 | 4·017 |
| 1902–03 | 9,94,60,280 | 6,603,929 | 1 | 3·935 | 17,80,06,985 | 11,896,017 | 1 | 4·039 |
| 1903–04 | 14,26,05,137 | 9,502,887 | 1 | 3·993 | 21,41,89,708 | 14,356,416 | 1 | 4·086 |
| 1904–05 | 13,47,71,989 | 8,993,229 | 1 | 4·015 | 23,05,85,374 | 15,432,329 | 1 | 4·062 |
| 1905–06 | 15,25,02,477 | 10,179,857 | 1 | 4·020 | 32,87,40,779 | 21,987,116 | 1 | 4·052 |
| 1906–07 | 17,77,10,081 | 11,867,805 | 1 | 4·028 | 31,70,59,592 | 21,289,391 | 1 | 4·115 |
| 1907–08 | 16,11,87,898 | 10,796,875 | 1 | 4·076 | 8,18,57,517 | 5,435,187 | 1 | 3·936 |
| 1908–09 | 3,15,51,751 | 2,095,256 | 1 | 3·938 | 17,80,85,437 | 11,820,170 | 1 | 3·930 |
| 1909–10 | 15,32,35,306 | 10,184,694 | 1 | 3·951 | 25,21,86,715 | 16,911,892 | 1 | 4·095 |
| 1910–11 | 17,13,31,579 | 11,435,911 | 1 | 4·019 | 22,89,09,178 | 15,347,392 | 1 | 4·091 |
| 1911–12 | 17,96,97,568 | 12,019,885 | 1 | 4·053 | 22,40,73,180 | 15,038,665 | 1 | 4·108 |
| 1912–13 | 14,67,44,404 | 9,809,188 | 1 | 4·043 | 23,82,43,774 | 15,950,518 | 1 | 4·068 |
| | Average - | 8,564,271 | | | Average - | 12,391,285 | | |

Note.—It will be seen that the amount drawn in the second half of the financial year exceeds that drawn in the first half by more than 44 per cent. on the average, and is almost invariably drawn at a higher rate of exchange.

## Table IV.

BALANCE OF INDIA'S FOREIGN TRADE.

| Excluding Government transactions. | 1883-84. | 1884-85. | 1885-86. | 1886-87. | 1887-88. | 1888-89. | 1889-90. | 1890-91. | 1891-92. | 1892-93. |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Gross Exports of Merchandise - | 58,747,500 | 55,467,000 | 55,885,200 | 58,952,400 | 60,314,300 | 64,652,100 | 68,931,200 | 66,757,100 | 72,024,000 | 71,024,000 |
| „ Imports of Merchandise - | 35,135,900 | 35,432,900 | 34,541,000 | 39,107,600 | 41,589,900 | 44,380,200 | 44,373,400 | 46,023,300 | 44,391,600 | 41,736,700 |
| Net Exports of Merchandise | 23,611,600 | 20,034,100 | 21,344,200 | 19,844,800 | 18,724,400 | 20,271,900 | 24,557,800 | 20,733,800 | 27,632,400 | 29,287,300 |
| Percentage of excess of Exports over Imports - - | 67 | 57 | 62 | 51 | 45 | 46 | 55 | 45 | 62 | 70 |
| | 56 | | | | | | | | | |

Note 1.—The difference between the figures under this head and those in Table II. (page 232), also those in Statement F. attached to Memorandum on Location and Management of General Balances (page 82), is due to the fact that the former are the amounts disbursed in India in payment of Secretary of State's drafts, while the latter are amounts received in London from the sale of those drafts.

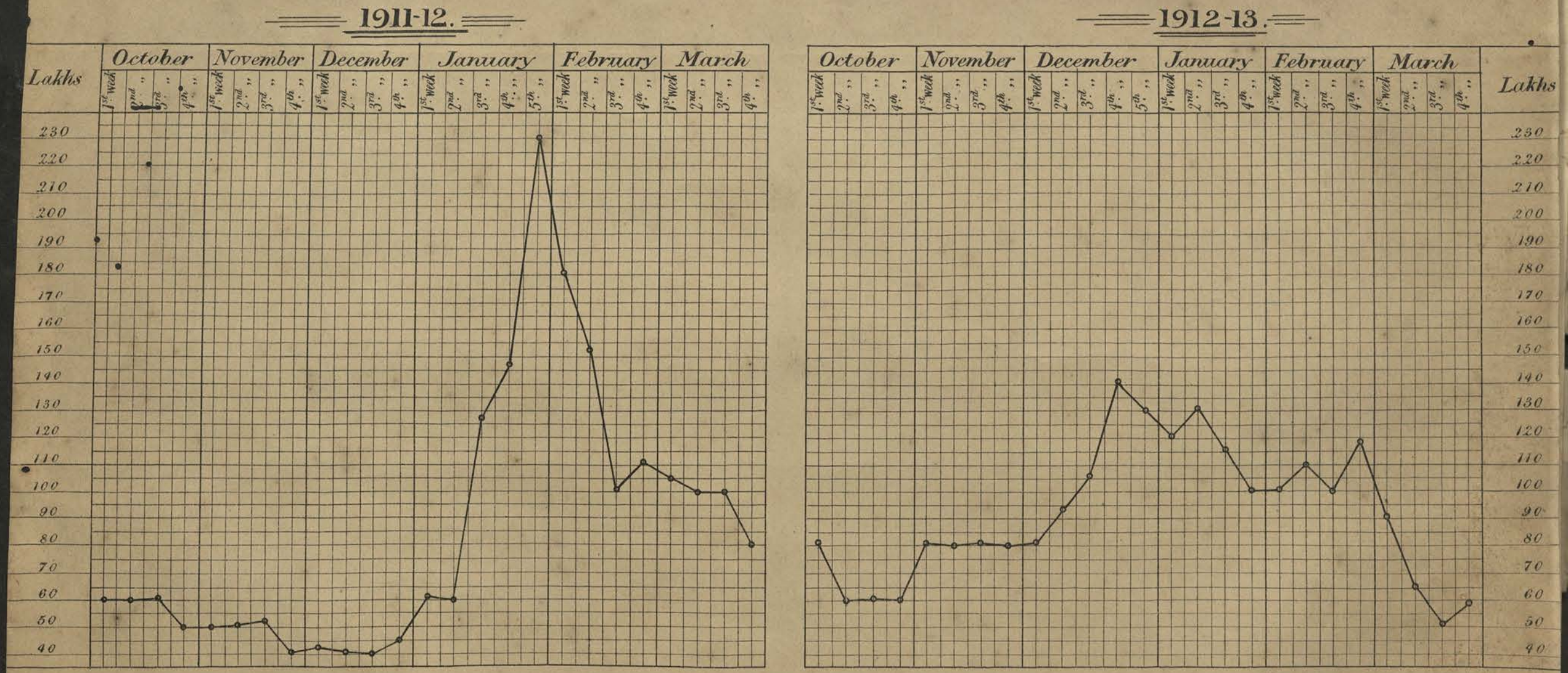
2. The figures of net import of sovereigns differ from those shown in Statement H. (pages 84–5) attached to Memorandum on Location and Management of General Balances, as the latter include movements of gold on Government account.

| Excluding Government Transactions. | 1893–4.*a*b* | 1894–5. | 1895–6. | 1896–7. | 1897–8. | 1898–9. | 1899–1900.*c* | 1900–01. | 1901–02. | 1902–03. |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Gross Exports of Merchandise - | 70,965,100 | 72,543,300 | 76,174,900 | 69,276,200 | 65,024,800 | 75,147,600 | 72,650,800 | 71,579,300 | 82,976,600 | 85,877,900 |
| „ Imports of Merchandise - | 49,304,600 | 46,778,300 | 46,211,100 | 47,943,100 | 46,177,800 | 45,586,900 | 47,141,200 | 50,851,900 | 54,346,000 | 52,525,300 |
| Net Exports - - | 21,660,500 | 25,765,000 | 29,963,800 | 21,333,100 | 18,847,000 | 29,560,700 | 25,509,600 | 20,727,400 | 28,630,600 | 33,352,600 |
| Percentage of excess of Exports over Imports. | 44 | 55 | 65 | 44 | 41 | 65 | 54 | 41 | 53 | 64 |
| | | | | 53 | | | | | | |
| This excess was met either in whole or part by— | | | | | | | | | | |
| I. Imports of— | | | | | | | | | | |
| (1) Government securities, net (+). | +1,178,200 | +359,700 | −*1,149,800* | +856,100 | +1,705,300 | +45,000 | +414,900 | −*908,300* | + 1,212,700 | + 1,152,500 |
| (2) Silver bullion and coin, net (+). | +9,172,800 | +4,250,000 | +4,400,500 | +3,905,600 | +5,622,400 | +2,648,200 | +2,379,200 | +949,100 | + 4,169,800 | + 4,651,000 |
| (3) Gold bullion, net (+) - | —*d* | —*d* | —*d* | —*d* | −*d* | +1,321,900 | +978,700 | +146,500 | Nil | + 898,900 |
| To the amount of— | 10,351,000 | 4,609,700 | 3,250,700 | 4,761,700 | 7,327,700 | 4,015,100 | 3,772,800 | 187,300 | 5,382,500 | 6,702,400 |
| And II. Imports of— | | | | | | | | | | |
| (1) Council Bills (*see Note* 1 *above*). | 9,960,200 | 15,770,500 | 18,742,200 | 15,170,500 | 9,472,700 | 18,883,900 | 18,703,800 | 18,824,500 | 18,535,800 | 18,724,000 |
| (2) Sovereigns, net import (+) (*see Note* 2 *above*). | + 427,500*d* | −*3,316,100d* | +1,684,000*d* | +1,527,400*d* | +3,272,300*d* | +3,013,700 | +5,315,000 | +4,897,200 | + 3,363,300 | + 5,413,900 |
| To the amount of - | 10,387,700 | 12,454,400 | 20,426,200 | 16,697,900 | 12,745,000 | 21,897,600 | 24,018,800 | 23,721,700 | 21,899,100 | 24,137,900 |

| Excluding Government Transactions. | 1903–04. | 1904–05. | 1905–06. | 1906–07. | 1907–08. | 1908–09. | 1909–10. | 1910–11. | 1911–12. | 1912–13. |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Gross Exports of Merchandise - | 101,973,000 | 105,000,400 | 107,806,700 | 117,713,300 | 118,240,000 | 102,020,000 | 125,253,000 | 139,921,300 | 151,896,100 | 164,364,800 |
| „ Imports of Merchandise - | 56,548,900 | 64,452,200 | 68,720,000 | 72,206,700 | 86,600,000 | 80,846,700 | 78,040,000 | 86,236,000 | 92,383,200 | 107,343,900 |
| Net Exports - - | 45,424,100 | 40,548,200 | 39,086,700 | 45,506,600 | 31,640,000 | 21,173,300 | 47,213,000 | 53,685,300 | 59,512,900 | 57,020,900 |
| Percentage of excess of Exports over Imports. | 80 | 63 | 57 | 63 | 37 | 26 | 60 | 62 | 64 | 53 |
| | | | | 55 | | | | | | |
| This excess was met either in whole or part by— | | | | | | | | | | |
| I. Imports of— | | | | | | | | | | |
| (1) Government securities, net (+). | + 996,200 | + 215,500 | + 253,300 | − *33,300* | + 840,000 | + 533,300 | − *520,000* | + 1,620,000 | + 706,700 | (Figure not available). |
| (2) Silver bullion and coin, net (+). | + 4,976,900 | + 4,625,000 | + 3,346,700 | + 4,460,000 | + 6,686,700 | + 7,973,300 | + 6,246,700 | + 5,738,800 | + 3,528,800 | + 4,382,500 |
| (3) Gold bullion, net (+) - | + 2,428,200 | + 3,498,300 | + 3,413,300 | + 4,906,700 | + 5,133,300 | + 2,273,300 | + 5,240,000 | + 7,610,900 | + 6,712,700 | + 7,280,800 |
| To the amount of - - | 8,401,300 | 8,338,800 | 7,613,300 | 9,333,400 | 12,660,000 | 10,779,900 | 10,966,700 | 14,969,700 | 10,948,200 | — |
| And II. Imports of— | | | | | | | | | | |
| (1) Council Bills (*see Note* 1 *above*). | 23,874,500 | 24,150,000 | 31,800,000 | 33,646,700 | 15,640,000 | 5,346,700*e* | 27,820,000 | 26,286,700 | 26,780,000 | 25,874,700 (Revised estimate.) |
| (2) Sovereigns, net import (+) (*see Note* 2 *above*). | + 8,457,500 | + 8,577,300 | + 2,886,900 | + 4,953,300 | + 6,433,300 | + 866,700 | + 9,213,300 | + 8,374,900 | + 18,465,500 | +17,771,600 |
| To the amount of - | 32,332,000 | 32,727,300 | 34,686,900 | 38,600,000 | 22,073,300 | 6,213,400 | 37,033,300 | 34,661,600 | 45,245,500 | 43,646,300 |

*a*. In March 1894 the duties on imports were re-cast with a view to obtaining greatly increased revenue.
*b*. Mints were closed to the coinage of silver for the public.
*c*. The sovereign was declared legal tender at the rate of one Sovereign for 15 Rupees.
*d*. During these years it has been found impossible to give the net imports of Gold Bullion separately; the combined figure is shown under "Sovereigns."
*e*. Net result of bills paid in India and drawn on London.

# Sales of Bills & Telegraphic Transfers Diagram to illustrate Table V.



# Table V.

## A Comparative Table showing the Sales of Bills and Telegraphic Transfers for the period October to March, inclusive, 1911-12 and 1912-13.

| Week ending Tuesday. | Amount of Bills and Telegraphic Transfers sold (in Lakhs of Rs.). | Rates. | | | | Week ending Tuesday. | Amount of Bills and Telegraphic Transfers sold (in Lakhs of Rs.). | Rates. | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Bills. | | T.T.'s | | | | Bills. | | T.T.'s | |
| | | Highest. | Lowest. | Highest. | Lowest. | | | Highest. | Lowest. | Highest. | Lowest. |
| 1911. | | s. d. | s. d. | s. d. | s. d. | 1912. | | s. d. | s. d. | s. d. | s. d. |
| 10th Oct. | 60 | 1 4 3/32 | 1 4 1/16 | 1 4 3/32 | 1 4 3/32 | 8th Oct. | 81·6 | 1 4 1/16 | 1 4 3/32 | 1 4 1/16 | 1 4 1/16 |
| 17th Oct. | 60·1 | 1 4 3/32 | 1 4 1/16 | 1 4 1/8 | 1 4 3/32 | 15th Oct. | 60 | 1 4 1/16 | 1 4 3/32 | 1 4 3/32 | 1 4 3/32 |
| 24th Oct. | 60·7 | 1 4 3/32 | 1 4 1/16 | 1 4 1/8 | 1 4 3/32 | 22nd Oct. | 60·8 | 1 4 3/32 | 1 4 1/16 | 1 4 3/32 | 1 4 3/32 |
| 31st Oct. | 50· | 1 4 1/16 | 1 4 1/16 | 1 4 3/32 | 1 4 3/32 | 29th Oct. | 60·1 | 1 4 3/32 | 1 4 1/16 | 1 4 3/32 | 1 4 3/32 |
| 7th Nov. | 50· | 1 4 1/16 | 1 4 1/32 | 1 4 1/16 | 1 4 1/16 | 5th Nov. | 81·3 | 1 4 3/32 | 1 4 1/16 | 1 4 3/32 | 1 4 3/32 |
| 14th Nov. | 50·3 | 1 4 3/32 | 1 4 1/32 | — | — | 12th Nov. | 80 | 1 4 1/16 | 1 4 1/32 | 1 4 1/16 | 1 4 1/16 |
| 21st Nov. | 52·2 | 1 4 3/32 | 1 4 1/32 | 1 4 3/32 | 1 4 1/16 | 19th Nov. | 81·9 | 1 4 3/32 | 1 4 1/32 | 1 4 1/16 | 1 4 1/16 |
| 28th Nov | 40·6 | 1 4 3/32 | 1 4 1/16 | 1 4 3/32 | 1 4 3/32 | 26th Nov. | 80·1 | 1 4 3/32 | 1 4 1/32 | 1 4 1/16 | 1 4 1/16 |
| 5th Dec. | 43·1 | 1 4 3/32 | 1 4 1/16 | — | — | 3rd Dec. | 82·5 | 1 4 3/32 | 1 4 1/16 | 1 4 3/32 | 1 4 3/32 |
| 12th Dec. | 40·7 | 1 4 3/32 | 1 4 1/16 | — | — | 10th Dec. | 94 | 1 4 3/32 | 1 4 1/16 | 1 4 5/32 | 1 4 3/32 |
| 19th Dec. | 40·5 | 1 4 3/32 | 1 4 1/16 | — | — | 17th Dec. | 108·1 | 1 4 1/8 | 1 4 3/32 | 1 4 5/32 | 1 4 1/8 |
| 26th Dec. | 45·2 | 1 4 3/32 | 1 4 1/16 | 1 4 1/8 | 1 4 3/32 | 23rd Dec. | 143·3 | 1 4 1/8 | 1 4 3/32 | 1 4 5/32 | 1 4 1/8 |
| | | | | | | 31st Dec. | 130·2 | 1 4 1/8 | 1 4 3/32 | 1 4 1/8 | 1 4 1/8 |
| 1912. | | | | | | 1913. | | | | | |
| 2nd Jan. | 61·8 | 1 4 1/8 | 1 4 3/32 | 1 4 5/32 | 1 4 1/8 | 7th Jan. | 123·9 | 1 4 1/8 | 1 4 7/16 | 1 4 1/8 | 1 4 3/32 |
| 9th Jan. | 60·3 | 1 4 3/32 | 1 4 3/32 | 1 4 1/8 | 1 4 1/8 | 14th Jan. | 132·2 | 1 4 3/32 | 1 4 1/16 | 1 4 1/8 | 1 4 3/32 |
| 16th Jan. | 127·1 | 1 4 1/8 | 1 4 3/32 | 1 4 5/32 | 1 4 1/8 | 21st Jan. | 117·1 | 1 4 3/32 | 1 4 1/16 | 1 4 1/8 | 1 4 3/32 |
| 23rd Jan. | 148·9 | 1 4 1/8 | 1 4 3/32 | 1 4 5/32 | 1 4 1/8 | 28th Jan. | 100·7 | 1 4 3/32 | 1 4 1/16 | 1 4 3/32 | 1 4 3/32 |
| 30th Jan. | 230 | 1 4 | 1 4 3/32 | 1 4 5/32 | 1 4 1/8 | 4th Feb. | 102·3 | 1 4 3/32 | 1 4 3/32 | 1 4 3/32 | 1 4 1/16 |
| 6th Feb. | 181·2 | 1 4 1/8 | 1 4 3/32 | 1 4 5/32 | 1 4 1/8 | 11th Feb. | 110 | 1 4 3/32 | 1 4 3/32 | 1 4 3/32 | 1 4 1/16 |
| 13th Feb. | 153·2 | 1 4 1/8 | 1 4 3/32 | 1 4 5/32 | 1 4 1/8 | 18th Feb. | 100 | 1 4 3/32 | 1 4 | 1 4 1/16 | 1 4 1/32 |
| 20th Feb. | 101·9 | 1 4 1/8 | 1 4 3/32 | 1 4 5/32 | 1 4 1/8 | 25th Feb. | 119·5 | 1 4 1/32 | 1 4 | 1 4 1/16 | 1 4 1/32 |
| 27th Feb. | 111 | 1 4 3/32 | 1 4 3/32 | 1 4 5/32 | 1 4 1/8 | 4th Mar. | 92 | 1 4 1/32 | 1 4 | 1 4 1/16 | 1 4 1/32 |
| 5th Mar. | 105·6 | 1 4 1/8 | 1 4 3/32 | 1 4 5/32 | 1 4 1/8 | 11th Mar. | 65·9 | 1 4 | 1 4 | 1 4 1/16 | 1 4 1/32 |
| 12th Mar. | 160·1 | 1 4 1/8 | 1 4 3/32 | 1 4 1/8 | 1 4 1/8 | 18th Mar. | 51·5 | 1 4 | 1 4 | 1 4 3/32 | 1 4 3/32 |
| 19th Mar | 100·3 | 1 4 1/8 | 1 4 3/32 | 1 4 1/8 | 1 4 1/8 | 25th Mar. | 58·5 | 1 4 | 1 3 31/32 | 1 4 1/32 | 1 4 |
| 26th Mar. | 80 | 1 4 3/32 | 1 4 1/16 | 1 4 1/8 | 1 4 3/32 | | | | | | |

# Table VI.

## Council Bills and Telegraphic Transfers sold and Net Imports of Sovereigns on Private Account into India for each Month 1911–12 and 1912–13.

| Month. | Prices realised. Bills. Highest. | | Bills. Lowest. | | Telegraphic Transfers. Highest. | | Telegraphic Transfers. Lowest. | | Total amount of Bills and Telegraphic Transfers Sold. | Average Rates realised in decimals of a Penny; and to the nearest $\frac{1}{32}$nd of a Penny. | Net Imports of Sovereigns on Private Account into India. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1911–12.** | *s.* | *d.* | *s.* | *d.* | *s.* | *d.* | *s.* | *d.* | Rs. | *s.* *d.* | £ |
| April - | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{16}$ | 1 | $4\frac{1}{8}$ | 1 | $4\frac{3}{32}$ | B. 54,10,413 / T.T. 363,84,000 | 1 4·091, say (1*s.* $4\frac{3}{32}$*d.*) | 999,945 |
| May - | 1 | $4\frac{3}{32}$ | 1 | $3\frac{31}{32}$ | 1 | $4\frac{1}{8}$ | 1 | 4 | B. 71,60,439 / T.T. 374,44,000 | 1 4·063, say (1*s.* $4\frac{1}{16}$*d.*) | 1,017,574 |
| June - | 1 | $4\frac{1}{32}$ | 1 | $3\frac{15}{16}$ | 1 | $4\frac{1}{16}$ | 1 | $3\frac{31}{32}$ | B. 102,68,189 / T.T. 138,64,000 | 1 4·008, say (1*s.* 4*d.*) | 171,819 |
| July - | 1 | $4\frac{1}{16}$ | 1 | 4 | 1 | $4\frac{3}{32}$ | 1 | $4\frac{3}{32}$ | B. 131,04,232 / T.T. 80,70,000 | 1 4·038, say (1*s.* $4\frac{1}{32}$*d.*) | 444,194 |
| August - | 1 | $4\frac{1}{16}$ | 1 | 4 | 1 | $4\frac{1}{16}$ | 1 | $4\frac{1}{32}$ | B. 215,79,000 / T.T. 35,21,000 | 1 4·028, say (1*s.* $4\frac{1}{32}$*d.*) | 325,298 |
| September | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{32}$ | 1 | $4\frac{1}{8}$ | 1 | $4\frac{1}{16}$ | B. 193,79,293 / T.T. 37,47,000 | 1 4·057, say (1*s.* $4\frac{1}{16}$*d.*) | 442,966 |
| October - | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{16}$ | 1 | $4\frac{1}{8}$ | 1 | $4\frac{3}{32}$ | B 194,94,509 / T.T. 40,54,000 | 1 4·071, say (1*s.* $4\frac{3}{16}$*d.*) | 1,660,090 |
| November | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{32}$ | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{16}$ | B. 228,01,351 / T.T. 7,01,000 | 1 4·046, say (1*s.* $4\frac{1}{32}$*d.*) | 1,567,542 |
| December | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{16}$ | 1 | $4\frac{5}{32}$ | 1 | $4\frac{3}{32}$ | B. 130,08,498 / T.T. 55,62,000 | 1 4·086, say (1*s.* $4\frac{3}{32}$*d.*) | 1,660,928 |
| January - | 1 | $4\frac{1}{8}$ | 1 | $4\frac{3}{32}$ | 1 | $4\frac{5}{32}$ | 1 | $4\frac{1}{8}$ | B. 84,63,039 / T.T. 645,26,000 | 1 4·136, say (1*s.* $4\frac{1}{8}$*d.*) | 2,954,216 |
| February | 1 | $4\frac{1}{8}$ | 1 | $4\frac{3}{32}$ | 1 | $4\frac{5}{32}$ | 1 | $4\frac{1}{8}$ | B. 67,38,652 / T.T. 420,28,000 | 1 4·124, say (1*s.* $4\frac{1}{8}$*d.*) | 4,272,225 |
| March - | 1 | $4\frac{1}{8}$ | 1 | $4\frac{1}{32}$ | 1 | $4\frac{5}{32}$ | 1 | $4\frac{1}{16}$ | B. 75,79,133 / T.T. 290,22,000 | 1 4·105, say (1*s.* $4\frac{3}{32}$*d.*) | 2,711,589 |
| **1912–13.** | | | | | | | | | | | |
| April - | 1 | $4\frac{1}{16}$ | 1 | $4\frac{3}{32}$ | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{16}$ | B. 125,84,000 / T.T. 143,29,000 | 1 4·058, say (1*s.* $4\frac{1}{16}$*d.*) | 1,196,474 |
| May - | 1 | $4\frac{1}{16}$ | 1 | 4 | 1 | $4\frac{1}{16}$ | 1 | $4\frac{1}{32}$ | B. 129,21,075 / T.T. 155,53,000 | 1 4·039, say (1*s.* $4\frac{1}{32}$*d.*) | 1,500,615 |
| June - | 1 | $4\frac{1}{16}$ | 1 | $4\frac{1}{32}$ | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{16}$ | B. 107,75,942 / T.T. 105,93,000 | 1 4·049, say (1*s.* $4\frac{3}{32}$*d.*) | 2,516,542 |
| July - | 1 | $4\frac{1}{16}$ | 1 | 4 | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{16}$ | B. 220,19,929 / T.T. 54,47,000 | 1 4·039, say (1*s.* $4\frac{1}{32}$*d.*) | 898,973 |
| August - | 1 | $4\frac{1}{16}$ | 1 | $4\frac{3}{32}$ | No sales | | | | B. 201,46,767 / T.T. — | 1 4·031, say (1*s.* $4\frac{1}{32}$*d.*) | 1,822,480 |
| September | 1 | $4\frac{1}{16}$ | 1 | $4\frac{1}{32}$ | 1 | $4\frac{1}{16}$ | 1 | $4\frac{1}{16}$ | B. 217,49,693 / T.T. 4,48,000 | 1 4·040, say (1*s.* $4\frac{1}{32}$*d.*) | 923,925 |
| October - | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{32}$ | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{16}$ | B. 309,33,468 / T.T. 43,83,000 | 1 4·063, say (1*s.* $4\frac{1}{16}$*d.*) | 744,902 |
| November | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{32}$ | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{16}$ | B. 277,57,060 / T.T. 46,10,000 | 1 4·054, say (1*s.* $4\frac{1}{16}$*d.*) | 520,331 |
| December | 1 | $4\frac{1}{8}$ | 1 | $4\frac{1}{16}$ | 1 | $4\frac{5}{32}$ | 1 | $4\frac{3}{32}$ | B. 229,44,513 / T.T. 248,39,000 | 1 4·111, say (1*s.* $4\frac{1}{8}$*d.*) | 2,101,829 |
| January - | 1 | $4\frac{1}{8}$ | 1 | $4\frac{1}{32}$ | 1 | $4\frac{1}{8}$ | 1 | $4\frac{1}{16}$ | B. 254,97,994 / T.T. 318,99,000 | 1 4·085, say (1*s.* $4\frac{3}{32}$*d.*) | 3,421,495 |
| February | 1 | $4\frac{3}{32}$ | 1 | 4 | 1 | $4\frac{3}{32}$ | 1 | $4\frac{1}{32}$ | B. 63,66,792 / T.T. 357,17,000 | 1 4·042, say (1*s.* $4\frac{1}{32}$*d.*) | 1,157,000 |
| March - | 1 | $4\frac{1}{32}$ | 1 | $3\frac{31}{32}$ | 1 | $4\frac{1}{16}$ | 1 | 4 | B. 55,50,946 / T.T. 176,83,000 | 1 4·014, say (1*s.* 4*d.*) | 809,880 |

# APPENDIX VIII.

## MEMORANDUM ON THE PAPER CURRENCY RESERVE SUBMITTED BY MR. F. W. NEWMARCH, FINANCIAL SECRETARY.

General historical sketch.

Under Acts of the Governor-General Nos. VI. of 1839, III. of 1840 and IX. of 1843 the Presidency Banks of Bengal, Bombay and Madras were authorised to issue notes payable on demand, but the issue of the notes was practically confined to the three cities of Calcutta, Bombay and Madras. These notes were not legal tender. The issues were limited to maxima of two crores of rupees in the cases of the Banks of Bengal and Bombay, and of one crore in that of the Bank of Madras. These Acts were repealed by Act XIX. of 1861, providing for the issue of a Paper Currency through a Government Department by means of notes of the Government of India payable to bearer on demand. These notes were made legal tender within the circles of issue. Since the 1st March 1862, when this Act took effect, no banks have been allowed to issue notes in India.

2. Under this Act notes of such denominations not being less than ten rupees as might be from time to time prescribed were issuable against current silver coin of the Government of India or standard silver bullion or foreign silver coin at the rate of Rs. 979 per 1,000 tolas* of standard silver fit for coinage. Provision was also made for the issue, under notification of the Government of India, of notes against gold coin of the Government of India or against foreign gold coin or gold bullion.

* The tola, which is the weight of the rupee, is equal to 180 grains or three-eighths of an ounce, Troy. The rupee contains 165 grains of fine silver.

3. It was provided that bullion and coin should be retained as a Reserve to pay the notes issued, with the exception of such an amount not exceeding four crores of rupees as the Governor-General in Council with the consent of the Secretary of State for India might from time to time fix. This amount was to be invested in "Government Securities."

The invested portion of the Reserve.

In December 1863 the composition of the Reserve against an issue of notes for Rs. 5,11,00,000 was as follows :—

| | Rs. |
|---|---|
| Silver Coin Reserve - | 1,93,22,868 |
| Silver Bullion Reserve - | 1,17,00,000 |
| Government Securities - | 2,00,77,132 |
| | 5,11,00,000 |

The invested portion of the Reserve, it will be seen was about two-fifths of the whole.

4. The maximum portion of the Reserve which might be held in "securities of the Government of India" was increased by Act III. of 1871 to 60 millions of rupees; it was subsequently raised to 80 millions by Act XV. of 1890 and to 100 millions by Act XXI. of 1896.

5. A later Act, No. III. of 1905, while raising the limit of the invested portion of the Reserve to 120 millions of rupees (value at the price at which they are purchased), introduced a change in the description of the securities in which investments might be made by substituting for "securities of the Government of India," "securities of the United Kingdom of Great Britain "and Ireland or of the Government of India, or securities issued by the "Secretary of State for India in Council under the authority of Act of Parlia-"ment and charged on the revenues of India." It also provided that the value of such securities as were not securities of the Government of India should not exceed 20 millions of rupees. A subsequent Act (No. VII. of 1911) raised the limit of the invested portion of the Reserve to 140 millions of rupees, and it provided that the amount of securities other than those of the Government of India should not exceed 40 millions of rupees.

6. The invested portion of the Reserve is now 140 millions, or 14 crores of rupees, of which 10 crores are represented by securities of the Government of India, and 4 crores by securities of the British Government (*see also* paragraphs 45 and 46). The correspondence that passed in 1904 and 1911 between the Secretary of State and the Government of India regarding the additions made in those years is attached (Note II., pages 255–83).

7. A Table (No. 1, page 248) appended to this Note shows the total note circulation and the composition of the Reserve held against it in (1) silver (2) gold (when any portion of the Reserve was so held) and (3) securities, as these stood at 31st March in each year from 1862 to 1913, with the percentages borne by silver, gold, and securities to the total amount of the Reserve.

Denominations of notes.

8. The Act of 1861 did not provide for the issue of notes of lower denominations than 10 rupees. A 5 rupee note was introduced by Act III. of 1871.

9. The following Table shows the numbers of the several denominations of currency notes in circulation on the last day of each of the years 1872–73, 1882–83, 1892–93, 1902–03, and 1911–12 :—

| Year. | 5. | 10. | 20. | 50. | 100. | 500. | 1,000. | 10,000. |
|---|---|---|---|---|---|---|---|---|
| 1872–73 | 310,001 | 970,517 | 441,871 | 157,965 | 214,110 | 27,957 | 57,635 | 576 |
| 1882–83 | 475,457 | 1,955,081 | 264,819 | 173,132 | 301,585 | 28,513 | 38,158 | 2,661 |
| 1892–93 | 495,456 | 3,917,336 | 330,083 | 232,482 | 568,068 | 50,648 | 67,981 | 5,403 |
| 1902–03 | 872,414 | 5,960,226 | 462,952 | 263,866 | 898,724 | 56,348 | 65,653 | 8,712 |
| 1911–12 | 2,599,877 | 15,090,740 | 65,633 | 379,255 | 1,652,209 | 56,102 | 92,971 | 14,320 |

10. By Act III. of 1905 the 5 rupee note issued from any town not in Burma was made legal tender in any place in British India except Burma and was payable at any office of issue not in Burma. By Act II. of 1909 the exception as to Burma was removed, and the 5 rupee note was made "universal." By Act II. of 1910 the 10 rupee and 50 rupee notes were also made "universal," and by a notification issued under that Act the 100 rupee note was also made universal from 1st April 1911. The issue of 20 rupee notes was discontinued under another notification, issued under the same Act, from 18th February 1910.

11. There has been a great increase in the popularity of paper money in recent years, which is partly, but not wholly, attributable to the universalisation of various denominations of notes.

Composition and location of the Reserve.

12. As stated above, the Act of 1861 made provision for the issue, under notification of the Government of India, of notes against gold coin or bullion. But this power was not exercised for some time.

Gold appears for the first time in the Paper Currency Reserve in 1865, when 20·15 lakhs were held in that form; the quantity had fallen to Rs. 72,520 in 1871, and gold disappeared from the Reserve after 1875.

Changes introduced consequent on the recommendations of the Herschell Committee and the Fowler Commission.

13. No further change in the composition of the Paper Currency Reserve (other than an increase of the invested portion) was made until 1893 when, in pursuance of the recommendations of Lord Herschell's Committee, an Act was passed (No. VIII. of 1893) providing for the closing of the Indian Mints to the free coinage of silver. This Act took effect from 26th June 1893. On the same date the following notifications were issued :—

Closing of Indian Mints.

(1.) Providing for the receipt at the Calcutta and Bombay Mints of gold coin and gold bullion in exchange for rupees, at the rate of 7·53344 grains troy of fine gold for one rupee.

(2.) Providing for the receipt of sovereigns and half-sovereigns of current weight at Indian Treasuries as the equivalent of 15 rupees and 7 rupees 8 annas respectively.

(3.) Providing for the issue of notes against gold coin and gold bullion at the rate of one rupee to 7·53344 grains troy of fine gold. Sovereigns and half-sovereigns of current weight were to be taken as the equivalent of 15 rupees and 7 rupees 8 annas respectively.

(A subsequent notification of 1906 modified the first of these notifications so as to provide that only sovereigns and half-sovereigns should be received at the Indian Mints in exchange for rupees.)

Sovereigns made legal tender.

14. These were the first steps towards the establishment of a Gold Standard. They were supplemented six years later by the Act No. XXII. of 1899 making British gold coins legal tender.

The Gold Note Act.

15. In 1898 an Act had also been passed (II. of 1898) enabling notes to be issued against gold held by the Secretary of State in London. This Act was intended as a temporary measure to meet exceptional conditions.

The balances of the Government of India were at a low level. There was a difficulty in meeting from them the Secretary of State's drafts, for which there was a strong market demand, money being exceptionally dear in India, with Calcutta and Bombay bank rates 11 and 12 per cent. respectively, and exchange having risen to gold point (selling rate of telegraphic transfers on India 1*s.* $4\frac{5}{32}$*d.* per rupee). In order to meet this crisis the Act above referred to was passed. Under it the proceeds of the Secretary of State's sales of Council Bills could be set aside at the Bank of England in gold as part of the Indian Paper Currency Reserve. The Government of India could issue notes against the gold so set aside, and with them could meet *pro tanto* the Secretary of State's drafts, without reducing their Treasury balances.

16. The Act authorising this procedure was, as stated above, intended to be a temporary measure. It provided that gold set apart under it by the Secretary of State should be held by him "until he shall transmit the same, "or what he shall determine to be equivalent to the same, in gold coin or "gold bullion to India, or until the Government of India shall appropriate "and set apart in India as a part of the Currency Reserve * * * "an amount of coin of the Government of India equal in value to such "notes."

17. The utility of the Act as something more than an emergency measure was, however, soon recognised; it was extended for $2\frac{1}{2}$ years by Act VIII. of 1898 and for a further period of two years by an Act No. VIII. of 1900, which empowered the Secretary of State to expend the gold held by him on the purchase of silver bullion and to transmit such bullion to India for currency purposes. This Act also enabled the silver bullion purchased under it to be held as security for currency notes until rupees were coined from it. It also provided that on receiving silver bullion the Government of India should coin it into rupees, and add to the Currency Reserve a number of rupees equal in value at 15 rupees = 1*l.* to the price of the silver bullion bought and transmitted to them. By Act IX. of 1902 the main provisions of the Act of 1900 were made permanent.

18. Thus the Secretary of State might either (1) hold gold in this country as part of the reserve against the note issue in India, or (2) he might transmit the gold to India to serve the same purpose there, or (3) he might expend it on the purchase of silver, also to form part of the reserve. Gold or silver in transit to India, from its location as part of the reserve in England, or *vice versâ*, remains part of the reserve while in transit (Act VIII. of 1900, Section 2; Act III. of 1905, Section 26; and Act X. of 1910, Section 21).

19. In practice, only Nos. 1 and 3 of the three alternative courses mentioned in the last paragraph are adopted. Ordinarily the balance of trade in favour of India admits of the importation of sovereigns on private account to an extent sufficient to meet the demands of the public, so that the shipment of sovereigns by the Secretary of State from England to India is unnecessary and would involve a needless waste of money on freight, &c.

20. When exceptionally the stock of gold available for issue to the public in India is not sufficiently maintained by imports of sovereigns from abroad, as in the crisis of 1908–09, the gold held in London can clearly be better utilised for the support of exchange if kept there than if shipped to India. It can, in such a crisis, be transferred from Paper Currency Reserve to Treasury balances, against an equivalent transfer in the reverse direction in India. Such a double transfer is equivalent to a remittance of Treasury balances from India to London, and may be used to obviate the necessity for making a remittance by means of the sale of Council drafts, at a time when such a remittance is either impracticable or only practicable at the cost of seriously depressing exchange.

**Holding of a portion of the Paper Currency Reserve in London.**

21. Thus the holding of a portion of the Paper Currency Reserve in London serves a double purpose (1), it may be used in payment for purchases of silver, and (2) it may serve as a support to exchange at times when the balance of trade is unfavourable to India.

22. Some portion of the Reserve has accordingly been so held continuously since 1905. The amount then held in India had risen to 11,000,000*l.*, and appeared to form a disproportionately large component of the Reserve, while the silver portion was somewhat low (less than one-third of the whole), 5,000,000*l.* were accordingly shipped to this country, and it was subsequently decided to aim at holding not less than that amount normally, in London. (*See* correspondence attached, Note III., pages 284–8). The amount held there reached 8,100,000*l.* in April 1907; in the exchange crisis of 1907–09 it was reduced to 1,500,000*l.* The amount now deposited at the Bank of England is 6,100,000*l.*

23. The transfer of a portion of the Paper Currency Reserve from India to London by the shipment of sovereigns is, however, an unnecessarily expensive process, involving as it does the cost of freight, insurance, &c. Additions to the stock of gold held in the Paper Currency Reserve in London are made (1) by earmarking gold from the money at the Secretary of State's credit at the Bank of England, *i.e.*, transferring to the Paper Currency Reserve, so as to allow the Government of India to issue additional notes or to withdraw rupees from the Reserve in India; or (2) by purchasing sovereigns in transit to India,* and diverting them to London, against telegraphic transfers on India.

* *See* paragraph 11 of Note on the sale of Council Bills and Telegraphic Transfers, page 218.

24. Of the gold coin which flows into India in the ordinary course of adjustment of trade balance only a small portion passes direct into the hands of the public; far the greater part is tendered to Government and passes into the Paper Currency Reserve, to be exchanged for notes or rupees. There is also a steady efflux of gold from Paper Currency Reserve, in exchange for notes or rupees, which does not, however, prevent the gold portion of the Reserve from becoming sometimes unduly large in proportion to the silver portion, as shown in paragraph 22 above. Note I., Table No. III., pages 251–3, shows the influx and efflux month by month from 1st April 1899 to 31st March 1911, and week by week from that date onwards.

**Quantities of (1) silver (2) gold to be held in the Paper Currency Reserve.**

25. In any year of normal seasons there is during the winter months a large efflux of silver coin from Currency Reserve, which is counteracted, but only to a partial extent, by a return of rupees from circulation during the summer months or dull season. The net result is that in the absence of new coinage the silver portion of the Reserve tends steadily to contract.

26. In periods of bad seasons and trade depression, as in the years 1908 and 1909, this process may be temporarily reversed. Thus in the period 1st April 1908 to 31st March 1909 the amount of coined silver in the Reserves† increased, with a new coinage of only 24·51 lakhs, from 3,126 lakhs to 4,708 lakhs, so that there was a net return of 1,557·5 lakhs from circulation in the year. This, however, was

† Paper Currency and Gold Standard combined, *see* paragraph 30, *et seq*, page 244.

altogether exceptional. In the period 1894–95 to 1912–13 the average rate of net efflux from Currency Reserve was 617·21 lakhs per annum.

The figures are as follows :—

| | Lakhs. |
|---|---|
| 1st April 1894 to 31st March 1900, average net annual efflux | 320·11 |
| 1st April 1900 to 31st March 1908, average net annual efflux | 912·3 |
| 1st April 1908 to 31st March 1910, average net annual *return from circulation* | 77 |
| 1st April 1910 to 31st March 1913, average net annual efflux | 886 |
| Average net annual efflux, 1894–5 to 1912–13 | 617·21 |

27. After the closing of the Indian mints to the free coinage of silver in 1893, the course adopted was to allow the stock of rupees in Currency Reserve to run down by this automatic process of depletion until it should reach as low a point as was consistent with safety. From 1898 onwards sovereigns flowed into the country in adjustment of the balance of trade in favour of India* and passed in considerable quantities into the Currency Reserve, so that at 31st March 1900, the composition of the Reserve, as compared with 31st March 1894, was as follows :—

| | 1894. | | 1900. | |
|---|---|---|---|---|
| | Amount. | Percentage of Total. | Amount. | Percentage of Total. |
| | Lakhs. | | Lakhs. | |
| Gold | Nil | — | 1,350† | 47 |
| Silver | 2,241 | 73·7 | 523 | 18·1 |
| Securities | 800 | 26·3 | 1,000 | 34·9 |
| Total | 3,041 | 100 | 2,873 | 100 |

† Of this 1,125 lakhs (7,500,000*l.*) were held in India and 225 lakhs (1,500,000*l.*) in England.

28. Before this date, however, it had become apparent that the rupee reserve was approaching a dangerously low level, and the coinage of new rupees was begun about the end of January 1900. The silver in Currency Reserve fell below 5 crores in February. About 1½ crores of rupees were added to the coinage in the last months of 1899–1900, and some addition to it was made in each year down to 1907–08, the amounts coined in the years 1905–06, 1906–07, and 1907–08 being very large indeed (*see* Note I., Table IV., page 254). The Silver Reserve was never again allowed to fall to so low a figure as that reached in February 1900, but in January 1904, under pressure of very heavy demands due to the activity of trade, it fell to 750¾ lakhs of rupees, or about 28 per cent. of the total Reserve.

29. There was practically no new coinage in 1908–9, 1909–10, 1910–11, or 1911–12. Early in 1912, however, the stock in Paper Currency was being rapidly depleted. It fell to 1,157 lakhs at 7th May, in addition to which there was a further stock of 290 lakhs in Gold Standard Reserve (*see* paragraph below), making a total of 1,447 lakhs, and allowing for a certain return of silver from circulation during the summer months, it appeared clear that the stock held at the commencement of the busy season would be below the required amount (*see* paragraph 37, page 245). Coinage to the extent of about 1,575 lakhs of rupees was therefore carried out in 1912–13.

Of this amount 310 lakhs passed into what was until recently known as the Silver Branch (*see* next paragraph)—now the Indian Branch—of the Gold

* *See* paragraph 19 above, page 241.

Standard Reserve, the remainder passing into the Paper Currency Reserve. The amount held in the two Reserves at 31st March 1913 was 2,245 lakhs, as against 1,830 at 31st March 1912.

The "Ingot Reserve" and the Silver Branch of the Gold Standard Reserve.

30. Reference has been made in the last paragraph to the Silver Branch, or as it is now called, the Indian Branch of the Gold Standard Reserve. This had its beginning in 1906. Before that date, *i.e.*, since the autumn of 1904, the Government of India, with the approval of the Secretary of State, had held a portion of their Paper Currency Reserve in the shape of silver ingots, so far prepared for coinage by having passed through the processes of melting, alligating, assaying, &c., as to be capable of being issued in the form of new rupees within five days from the date of an order to coin being given. Credit for these rupees was taken in the Paper Currency Reserve at their bullion value, and the amount of the Reserve so held was at first 300 lakhs of rupees, *i.e.*, silver purchased at a cost of 2,000,000*l*. This silver would of course produce much more than 300 lakhs of rupees, but the excess over 300 lakhs would be a credit to Gold Standard Reserve, not Paper Currency Reserve.

31. This reserve was intended to be treated as an emergency reserve, only to be drawn upon to meet sudden demands, and when drawn upon to be restored to its authorised figure at the earliest possible opportunity. The banking and commercial public had been alarmed at the rapid withdrawal of rupees from Currency Reserve at seasons of exceptionally active trade, as in the winter of 1903–04, when the efflux amounted to more than 4 crores of rupees in the one month of December 1903. Apprehensions had been expressed of a possible failure of the supply of rupees, and the Government of India thought that the holding of an emergency reserve, although held within the Paper Currency Reserve, would strengthen confidence in their position.

32. The next step was a proposal of the Government of India, which was approved by the Secretary of State in January 1906, to increase the "Ingot Reserve" from 300 to 600 lakhs of rupees. Before this was put into effect, however, the original Reserve had been exhausted under the pressure of a great demand for new rupees, and the Government of India submitted in April 1906, a proposal to hold the increased ingot Reserve not as a part of the Paper Currency Reserve, but as a branch of what had, up to that time, been called the "Gold Reserve Fund," but which, in view of its altered composition it was decided to denominate in future the Gold Standard Reserve.

33. The silver composing this fund represented, of course, the profits of other coinage, thus reducing *pro tanto* the amount for the time available for investment in gold securities. The Government of India did not regard this as an evil. They wrote* "as regards gold, the position "already attained is undeniably strong. "We have accumulated by a natural process a stock of over 12,000,000*l*. "in the Gold Reserve Fund, besides over 11,000,000*l*. in the Currency "Reserve, and in addition the paper currency investment now includes "1⅓ millions worth of sterling securities. During seven years we have "never been threatened with serious attack from this side. We are far "from affirming that the point has been reached or is in sight, when further "accumulations of gold should cease. Even a relatively small depletion of "our total stock of gold might excite public apprehension and this is the more "important now that it has been decided to divide our stock by holding five "millions or more in your currency chest in London. At the present time "we hold less than four millions of gold in India, and we are assured that "no material reduction in this figure would be consistent with public "confidence."

Then follows this important statement "We are however satisfied that "further direct additions to the Gold Reserve Fund can with advantage be "temporarily suspended if such a measure would enable us to strengthen

* Financial Despatch to the Secretary of State, No. 144, dated 26th April 1906. (*See* Appendix V., page 137.)

" our position on a weaker side. The case of silver is wholly different. " *From first to last our only practical difficulty has been the timely provision* " *of rupees*, and notwithstanding various improvements of method that " difficulty still remains, and as recent experience has again shown it " constitutes a real danger."

34. The practice of holding a portion of the Gold Standard Reserve in silver has met with much criticism, and is discussed in Mr. Abrahams' note on the Gold Standard Reserve (*see* Appendix III., pages 94–6).

It may be mentioned here that the course adopted in 1906 had the effect of increasing the rupee reserves by six crores without increasing at all (as an addition of six crores to the silver held *within* the Paper Currency Reserve would have done) the volume of the notes liable to be presented for encashment.* The same result could have been obtained by taking from the gold in the Paper Currency Reserve an amount sufficient to buy silver to produce six crores of rupees; and the Government of India considered this alternative method, but dismissed it on the ground that it would unduly deplete their stock of gold. Taking as the basis of their calculations a note issue of 42 crores, against which the invested portion of the Reserve was 12, they argued that they could not hold within the Reserve 18 crores of rupees (which they regarded as a suitable stock wherewith to begin the busy season), as well as an ingot reserve of 4 crores (at bullion value, capable of being coined into about 600 lakhs of rupees), without reducing the gold portion of the Reserve to a too low figure, viz., 8 crores = 5,333,333*l*. By the method which they adopted they were able to hold a total silver reserve of 24 crores, bearing a proportion of slightly more than 57 per cent. to the note circulation, whereas, if they had added 6 crores of rupees to the Paper Currency Reserve, and therefore to the note issue, the silver held would have only borne a proportion of 50 per cent. to the larger note issue.

* The silver branch of the Gold Standard Reserve also formed the nucleus to which the large sums (exceeding 8,000,000*l*.) received by the Government of India in payment for Bills on London were added, in rupees, during the crisis of 1907–09.

| | |
|---|---|
| Invested portion | 12 |
| Rupees | 18 |
| Ingot Reserve | 4 |
| Gold | 8 |
| | 42 |

Quantities of silver, gold, and investments to be held in Paper Currency Reserve.—*contd.*

35. The proportion which the silver reserves should bear to the total Paper Currency Reserve has not, however, been laid down in terms of a percentage to the rapidly increasing amount of the latter. As has been shown above (*see* paragraph 27, page 243), the percentage has been as low as 18·1 in 1900, but when, later on, it fell again as low as 28 per cent., the situation was regarded as dangerous (paragraph 28, page 243). Silver.

36. Conditions are however, changing, and the efflux of rupees from the Reserve in the busy season and the net withdrawal in the whole year have hardly been on so large a scale in the recent years of active trade, 1909–10, 1910–11, 1911–12 and 1912–13, as in earlier years of trade activity, viz., 1903–04 to 1906–07 (*see* paragraph 28). This appears to have been due partly to an increasing popularity of the note circulation (*see* paragraphs 10 and 11 above, page 240), and partly to an increasing circulation of gold coin. On the other hand the total volume of the Reserve has increased enormously —from 39 crores of rupees at 31st March 1905 to 69 crores at the same date in 1913. Thus if the requisite reserve of silver were calculated on the basis of a percentage to the total note circulation, that reserve would have to be 75 per cent. larger* now than eight years ago. Such a method of regulating the stock of rupees to be held in the Reserve, or Reserves, would thus be clearly mistaken.

37. The formula accepted for present guidance is that the amount held in Paper Currency and Gold Standard Reserve combined should be at

* If account were taken only of the "active" circulation, *i.e.*, the total circulation less notes held in Government Treasuries and Presidency Banks, the increase would be less, because owing to the Government balances having been unusually high at the end of the period in question, the difference between total and active note circulation at that date must have been much above the average. The exact figures of total and active note circulation at 31st March 1913 are, however, not available.

least 24 crores of rupees at the commencement of the "busy" season (1st October) and not less than 17½ crores towards the end of that season, during which there is normally a large withdrawal of rupees from the Reserve. During the October—December quarter, the accepted policy is to keep the stock in Paper Currency Reserve up to 18 crores, coining silver for the purpose as may be necessary, and to hold the 6 crores in Gold Standard Reserve intact, but after 31st December to draw upon the silver in the Gold Standard Reserve, if necessary, so as to maintain a minimum of 15 crores in Paper Currency Reserve, provided that the total stock of rupees in the two Reserves does not fall below 17½ crores at 31st March. Rupees thus transferred from Gold Standard Reserve to Currency Reserve are to be replaced by gold transferred from the latter to the former Reserve. After the busy season closes and when the return of rupees from circulation into Currency Reserve has set in, gold is to be transferred back from Gold Standard to Currency Reserve, in exchange for silver transferred from the latter to the former. This arrangement gives a degree of elasticity to the system and enables the Paper Currency to be worked safely with perhaps a minimum stock of silver.

38. A formula of this kind must, however, be expected to need revision from time to time. No one expects it to serve as a hard and fast standard for all time; but for the present it seems sufficient to retain it a guide for action, while carefully watching its applicability to the changing conditions.

39. It appears from Note I., Table No. IV., page 254, that on the average of the past 19 years an annual purchase of about 23,427,000 ounces of silver, producing about 617 lakhs of new rupees, will serve to keep up a certain stock of rupees. It is sometimes said, I believe, that on the basis of a calculation of this sort, the Secretary of State should buy regularly, year by year, or month by month, a certain number of thousands of ounces of silver. The practice of other countries, such as France and the United States, is cited as an example to be followed by him. It is urged that if he did so the fluctuations in the price of silver would be restricted, and trade between India and countries having a purely silver standard, such as China, would be put upon a sounder basis.

40. But the conditions with which those who are responsible for the regulation of the Indian currency have to deal are different from those existent in any other country in the world. The influence which dominates all others is that of the seasonal monsoon. In good seasons, as stated above, paragraphs 25 and 26, pages 242–3, there is a steady absorption of rupees which, if a tolerably constant succession of good seasons could be relied upon, would justify a regular and constant purchase of silver for new coinage.

41. During the six years, 1902–3 to 1907–08, new coinage proceeded at an average rate of 1,302·72 lakhs a year, with the result that at the end of the period the stocks of silver in Paper Currency and Gold Standard Reserves had increased by 2,005 lakhs. Thus new coinage at the rate of 968·56 lakhs per annum would have maintained the Reserves at the figure at which they stood at 31st March 1902. With hardly any coinage of new rupees the quantity held in Paper Currency Reserve and Gold Standard Reserve combined was increased between 1st April 1908 and 1st April 1910 from 3,126 to 3,316 lakhs.* Had the experience of the six years prior to 1st April 1908 been relied upon as a guide for the future, and had new coinage proceeded at the rate of 968·56 lakhs a year, the stock held in the two Reserves combined at the latter date would have been 5,063 lakhs and, with a continuance of bad seasons and purchases of silver for coinage, the accumulation of silver coin might have progressed indefinitely.

* It reached its highest figure, 4,914 lakhs, at the end of August 1909.

42. Purchases of silver, it is to be remembered, must be paid for either with gold taken from the Paper Currency Reserve or by additional sales of Council Bills. But after any lengthened exchange crisis the quantity of gold held in the Currency Reserve must necessarily have fallen low. It had

fallen to 1,500,000*l.* at the close of the crisis of 1907–09. At such a time it needs to be replenished, not depleted. Its utilisation for the purchase of silver would directly deplete it; increased sales of Bills to pay for silver would retard its replenishment.

43. The policy of Government, therefore, for this reason if for no other, must be not to buy silver for new coinage when there is already an excessive accumulation of silver coin in the Currency Reserve, and indeed not to buy until the prospect of the stock falling to an unduly low level, measured according to the best estimates that can be framed (*see* paragraph 37, page 245), seems to be in sight.

Gold.

44. As regards gold, the accepted policy is to allow the stock held to increase with the influx which takes place in times of active trade, that is when the sales of Council Bills fall far short of meeting the demand for remittance to India, until the amount of gold held in the Reserve becomes large out of proportion to the amount of silver. It is impossible to fix a point at which this takes place. Some years ago (1905), when the total Currency Reserve was only about four-sevenths of its present size, a holding of 10,000,000*l.* in sovereigns was looked upon as excessive. In the last few months the amount has been allowed to reach nearly 27,000,000*l.*, while silver has not been at a dangerously low level. If sovereigns continue to form an increasing part of the circulation, and if rupees continue to be withdrawn on a diminishing scale from the Currency Reserve, the portion of that Reserve held in gold may be allowed to grow. The gold portion of the Reserve need only be reduced if and when it is required to use a portion of it for the purchase of silver.

The invested portion of the Reserve.

45. The ratio borne by the invested portion of the Reserve to the whole, as will be seen from Note I., Table I., pages 248–9, has varied greatly. Down to 1879 it was frequently more than 50 per cent. of the whole. Since the closing of the Indian Mints it has often exceeded 40 per cent. At 31st March 1913 it was only a little over 20 per cent. of the whole. The fiduciary portion of the Reserve held by the Bank of England against its note issue, it may be observed, is seldom less than 31 per cent.

46. The growth of the Indian note circulation, as observed above (paragraph 36, page 245), has been extraordinarily rapid of late years. If it continues a further increase of the invested portion of the Reserve will, no doubt, soon become practicable.

## NOTE 1.—TABLES.

# Table No. I.

### Paper Currency Reserve.

| Year. (Last day in March). | Total Note Circulation. | Composition and Location of the Reserve. | | | | | | | Percentage of Silver to total Reserve. | Percentage of Gold to Total Reserve. | Percentage of Securities to Total Reserve. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Silver. | Gold. | | | Securities. | | | | | |
| | | India. | India. | England. | Total. | India. | England. | Total. | | | |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | | | |
| 1862 - - | 3,69,00,000 | 3,69,00,000 | — | — | — | — | — | — | 100· | — | — |
| 1863 - | 4,92,60,000 | 4,24,11,140 | — | — | — | (a)68,48,860 | — | 68,48,860 | 86·1 | — | 13·9 |
| 1864 - - | 5,35,00,000 | 2,86,27,220 | — | — | — | 2,48,72,780 | — | 2,48,72,780 | 53·5 | — | 46·5 |
| 1865 - | 7,42,73,270 | 3,65,13,250 | 20,14,850 | — | 20,14,850 | 3,57,45,170 | — | 3,57,45,170 | 49·2 | 2·7 | 48·1 |
| 1866 - - | 6,89,84,810 | 2,91,82,050 | 220 | — | 220 | 3,98,02,540 | — | 3,98,02,540 | 42·3 | — | 57·7 |
| 1867 - | 8,09,08,680 | 4,82,68,540 | 1,19,590 | — | 1,19,590 | 3,25,20,550 | — | 3,25,20,550 | 59·7 | ·1 | 40·2 |
| 1868 - - | 9,06,95,690 | 5,80,27,630 | 1,47,510 | — | 1,47,510 | 3,25,20,550 | — | 3,25,20,550 | 64· | — | 36· |
| 1869 - | 9,95,92,960 | 6,01,50,410 | 3,12,490 | — | 3,12,490 | 3,91,30,060 | — | 3,91,30,060 | 60·4 | ·3 | 39·3 |
| 1870 - - | 10,47,28,830 | 6,83,82,830 | 3,12,490 | — | 3,12,490 | 3,60,33,510 | — | 3,60,33,510 | 65·3 | ·3 | 34·4 |
| 1871 - | 10,43,72,910 | 7,20,28,380 | 72,520 | — | 72,520 | 3,22,72,010 | — | 3,22,72,010 | 69· | ·1 | 30·9 |
| 1872 - - | 13,16,79,170 | 7,25,12,920 | 72,490 | — | 72,490 | (b)5,90,93,760 | — | 5,90,93,760 | 55· | ·1 | 44·9 |
| 1873 - | 11,13,50,610 | 5,43,38,580 | 72,490 | — | 72,490 | 5,69,39,530 | — | 5,69,39,530 | 48·8 | ·1 | 51·1 |
| 1874 - - | 9,24,97,610 | 3,54,85,590 | 72,490 | — | 72,490 | 5,69,39,530 | — | 5,69,39,530 | 38·4 | ·1 | 61·5 |
| 1875 - | 11,23,64,380 | 5,53,52,360 | 72,490 | — | 72,490 | 5,69,39,530 | — | 5,69,39,530 | 49·2 | ·1 | 50·7 |
| 1876 - - | 10,99,99,270 | 5,30,59,720 | — | — | — | 5,69,39,530 | — | 5,69,39,530 | 48·2 | — | 51·8 |
| 1877 - | 11,61,78,110 | 5,61,97,210 | — | — | — | 5,99,80,900 | — | 5,99,80,900 | 48·4 | — | 51·6 |
| 1878 - - | 13,57,47,500 | 7,88,15,030 | — | — | — | 5,69,32,460 | — | 5,69,32,460 | 58·1 | — | 41·9 |
| 1879 - | 11,42,36,450 | 5,42,45,270 | — | — | — | 5,99,91,170 | — | 5,99,91,170 | 47·5 | — | 52·5 |
| 1880 - - | 12,35,77,270 | 6,36,06,520 | — | — | — | 5,99,70,750 | — | 5,99,70,750 | 51·5 | — | 48·5 |
| 1881 - | 13,40,17,360 | 7,40,93,180 | — | — | — | 5,99,24,180 | — | 5,99,24,180 | 55·3 | — | 44·7 |
| 1882 - - | 13,90,71,780 | 7,90,67,850 | — | — | — | 5,99,99,970 | — | 5,99,99,970 | 56·9 | — | 43·1 |
| 1883 - | 14,50,64,080 | 8,50,64,110 | — | — | — | 5,99,99,970 | — | 5,99,99,970 | 58·6 | — | 41·4 |
| 1884 - - | 12,75,65,410 | 6,75,65,410 | — | — | — | 6,00,00,000 | — | 6,00,00,000 | 53· | — | 47· |
| 1885 - | 14,57,69,040 | 8,57,71,540 | — | — | — | 5,99,97,500 | — | 5,99,97,500 | 58·8 | — | 41·2 |
| 1886 - - | 14,17,32,720 | 8,17,37,720 | — | — | — | 5,99,95,000 | — | 5,99,95,000 | 57·7 | — | 42·3 |
| 1887 - | 13,87,68,360 | 7,87,75,860 | — | — | — | 5,99,92,500 | — | 5,99,92,500 | 56·8 | — | 43·2 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1888 | 16,42,43,790 | 10,42,53,760 | — | — | — | 5,99,90,030 | — | 5,99,90,030 | 63·5 | — | 36·5 |
| 1889 | 15,73,78,130 | 9,75,58,100 | — | — | — | 5,98,20,030 | — | 5,98,20,030 | 62· | — | 38· |
| 1890 | 15,77,17,800 | 9,77,17,820 | — | — | — | 5,99,99,980 | — | 5,99,99,980 | 62· | — | 38. |
| 1891 | 25,69,04,490 | 18,69,04,530 | — | — | — | 6,99,99,960 | — | 6,99,99,960 | 72·8 | — | 27·2 |
| 1892 | 24,07,64,080 | 16,07,64,080 | — | — | — | (c)8,00,00,000 | — | 8,00,00,000 | 66·8 | — | 33·2 |
| 1893 | 26,40,18,200 | 18,40,18,200 | — | — | — | 8,00,00,000 | — | 8,00,00,000 | 69·7 | — | 30·3 |
| 1894 | 30,41,16,310 | 22,41,16,310 | — | — | — | 8,00,00,000 | — | 8,00,00,000 | 73·7 | — | 26·3 |
| 1895 | 30,70,00,100 | 22,70,00,100 | — | — | — | 8,00,00,000 | — | 8,00,00,000 | 73·9 | — | 26·1 |
| 1896 | 25,94,06,990 | 17,94,06,990 | — | — | — | 8,00,00,000 | — | 8,00,00,000 | 69·2 | — | 30·8 |
| 1897 | 23,75,33,070 | 13,75,33,120 | — | — | — | (d)9,99,99,950 | — | 9,99,99,950 | 57·9 | — | 42·1 |
| 1898 | 24,76,40,490 | 14,50,86,340 | 25,54,200 | — | 25,54,200 | 9,99,99,950 | — | 9,99,99,950 | 58·6 | 1· | 40·4 |
| 1899 | 28,20,32,760 | 15,15,01,090 | 3,05,31,720 | — | 3,05,31,720 | 9,99,99,950 | — | 9,99,99,950 | 53·7 | 10·8 | 35·5 |
| 1900 | 28,73,72,255 | 5,23,72,122 | 11,25,00,187 | 2,25,00,000 | 13,50,00,187 | 9,99,99,946 | — | 9,99,99,946 | 18·2 | 47· | 34·8 |
| 1901 | 29,86,59,000 | 11,19,81,278 | 8,66,77,776 | — | 8,66,77,776 | 9,99,99,946 | — | 9,99,99,946 | 37·5 | 29· | 33·5 |
| 1902 | 31,66,12,945 | 11,12,54,180 | 10,53,58,819 | — | 10,53,58,819 | 9,99,99,946 | — | 9,99,99,946 | 35·1 | 33·3 | 31·6 |
| 1903 | 35,72,36,070 | 10,93,42,656 | 14,78,93,468 | — | 14,78,93,468 | 9,99,99,946 | — | 9,99,99,946 | 30·6 | 41·4 | 28· |
| 1904 | 38,21,16,540 | 12,02,73,091 | 16,18,43,503 | — | 16,18,43,503 | 9,99,99,946 | — | 9,99,99,946 | 31·4 | 42·4 | 26·2* |
| 1905 | 39,17,59,870 | 13,06,57,840 | 16,11,02,084 | — | 16,11,02,084 | 9,99,99,946 | — | 9,99,99,946 | 33·4 | 41·1 | 25·5 |
| 1906 | 44,65,65,810 | 16,34,95,990 | 5,73,94,868 | 10,56,75,006 | 16,30,69,874 | (e)9,99,99,946 | 2,00,00,000 | 11,99,99,946 | 36·6 | 36·5 | 26·9 |
| 1907 | 46,95,19,260 | 18,93,36,703 | 5,49,57,611 | 10,53,75,000 | 16,03,32,611 | 9,99,99,946 | 2,00,00,000 | 11,99,99,946 | 40·3 | 34·1 | 25·6 |
| 1908 | 46,88,50,345 | 25,25,82,784 | 4,06,92,615 | 5,55,75,000 | 9,62,67,615 | 9,99,99,946 | 2,00,00,000 | 11,99,99,946 | 53·9 | 20·5 | 25·6 |
| 1909 | 45,48,79,505 | 31,20,28,350 | 3,51,209 | 2,25,00,000 | 2,28,51,209 | 9,99,99,946 | 2,00,00,000 | 11,99,99,946 | 68·6 | 5· | 26·4 |
| 1910 | 54,40,84,250 | 29,35,58,565 | 9,30,25,739 | 3,75,00,000 | 13,05,25,739 | 9,99,99,946 | 2,00,00,000 | 11,99,99,946 | 54· | 24· | 22· |
| 1911 | 54,99,05,815 | 26,23,73,602 | 9,27,97,267 | 7,56,75,000 | 16,84,72,267 | 9,99,99,946 | 2,00,00,000 | 11,99,99,946 | 47·7 | 30·6 | 21·8† |
| 1912 | 61,36,25,095 | 15,57,08,887 | 23,33,16,262 | 8,55,00,000 | 31,88,16,262 | (f)9,99,99,946 | 4,00,00,000 | 13,99,99,946 | 25·4 | 52· | 22·8‡ |
| 1913 | 68,97,78,240 | 16,45,27,496 | 29,37,50,798 | 9,15,00,000 | 38,52,50,798 | 9,99,99,946 | 4,00,00,000 | 13,99,99,946 | 23·9 | 55·8 | 20·3 |

* At this date the total amount of the Reserve exceeded the total Note Circulation by Rs. 1,50,000, representing amount due on Bills drawn by one Circle on another.
† " " " " " " Rs. 3,40,000, representing amount due on Bills drawn by one Circle on another.
‡ " " " " " " Rs. 9,00,000, representing amount due on Bills drawn by one Circle on another.
(a) Act XIX. of 1861 authorised the holding of a portion of the Reserve not exceeding 4 crores of rupees in Government securities.
(b) Act III. of 1872 authorised an increase of the invested portion of the Reserve to 6 crores.
(c) Act III. of 1890 authorised an increase of the invested portion of the Reserve to 8 crores.
(d) Act XXI. of 1896 authorised an increase of the invested portion of the Reserve to 10 crores.
(e) Act III. of 1905 authorised an increase of the invested portion of the Reserve to 12 crores, of which 2 crores might be securities of the United Kingdom.
(f) Act VII. of 1911 authorised an increase of the invested portion of the Reserved to 14 crores, of which 4 crores might be securities of the United Kingdom.

# Table No. II.

## GROSS AND ACTIVE CIRCULATION OF CURRENCY NOTES, 1862 TO 1912.

| Year. (Last day in March.) | Gross Circulation. 1. | In Government Treasuries. 2. | Elsewhere. 3 = Col. 1 − Col. 2. | Notes held by Presidency Banks at Head Offices. 4. | Notes in active circulation among the Public. 5 = Col. 1 − (Col. 2 + Col. 4). |
|---|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| 1862 | 3,69,00,000 | 16,70,600 | 3,52,29,400 | | |
| 1863 | 4,92,60,000 | 44,86,110 | 4,47,73,890 | | |
| 1864 | 5,35,00,000 | 39,26,650 | 4,95,73,350 | | |
| 1865 | 7,42,73,270 | 58,14,140 | 6,84,59,130 | | |
| 1866 | 6,89,84,810 | 69,87,190 | 6,19,97,620 | | |
| 1867 | 8,09,08,680 | 60,31,390 | 7,48,77,290 | | |
| 1868 | 9,06,95,690 | 71,23,150 | 8,35,72,540 | | |
| 1869 | 9,95,92,960 | 62,98,040 | 9,32,94,920 | | |
| 1870 | 10,47,28,830 | 80,99,460 | 9,66,29,370 | | |
| 1871 | 10,43,72,910 | 99,13,170 | 9,44,59,740 | | |
| 1872 | 13,16,79,170 | 2,20,83,790 | 10,95,95,380 | | |
| 1873 | 11,13,50,610 | 1,85,56,780 | 9,27,93,830 | | |
| 1874 | 9,24,97,610 | 1,27,63,140 | 7,97,34,470 | | |
| 1875 | 11,23,64,380 | 1,58,44,910 | 9,65,19,470 | Figures for years before 1893 not available at India Office. | |
| 1876 | 10,99,99,270 | 1,73,45,770 | 9,26,53,500 | | |
| 1877 | 11,61,78,110 | 1,35,67,760 | 10,26,10,350 | | |
| 1878 | 13,57,47,500 | 2,56,88,490 | 11,00,59,010 | | |
| 1879 | 11,42,36,450 | 1,71,68,700 | 9,70,67,750 | | |
| 1880 | 12,35,77,270 | 1,32,60,850 | 11,03,16,420 | | |
| 1881 | 13,40,17,360 | 1,80,55,950 | 11,59,61,410 | | |
| 1882 | 13,90,71,780 | 3,39,95,040 | 10,50,76,740 | | |
| 1883 | 14,50,64,080 | 3,39,09,410 | 11,11,54,670 | | |
| 1884 | 12,75,65,410 | 2,26,06,540 | 10,49,58,870 | | |
| 1885 | 14,57,69,040 | 1,84,67,210 | 12,73,01,830 | | |
| 1886 | 14,17,32,720 | 1,85,93,400 | 12,31,39,320 | | |
| 1887 | 13,87,68,360 | 1,97,87,880 | 11,89,80,480 | | |
| 1888 | 16,42,43,790 | 1,92,86,560 | 14,49,57,230 | | |
| 1889 | 15,73,78,130 | 2,47,48,980 | 13,26,29,150 | | |
| 1890 | 15,77,17,800 | 2,45,79,940 | 13,31,37,860 | | |
| 1891 | 25,69,04,490 | 5,31,15,320 | 20,37,89,170 | | |
| 1892 | 24,07,64,080 | 5,35,09,840 | 18,72,54,240 | | |
| 1893 | 26,40,18,200 | 4,60,17,970 | 21,80,00,230 | 2,32,00,000 | 19,48,00,230 |
| 1894 | 30,41,16,310 | 11,56,70,570 | 18,84,45,740 | 2,00,00,000 | 16,84,45,740 |
| 1895 | 30,70,00,100 | 9,03,05,650 | 21,66,94,450 | 2,61,00,000 | 19,05,94,450 |
| 1896 | 25,94,06,990 | 4,07,04,640 | 21,87,02,350 | 1,77,00,000 | 20,10,02,350 |
| 1897 | 23,75,33,070 | 2,89,04,320 | 20,86,28,750 | 2,10,00,000 | 18,76,28,750 |
| 1898 | 24,76,40,490 | 5,08,13,080 | 19,68,27,410 | 1,82,00,000 | 17,86,27,410 |
| 1899 | 28,20,32,760 | 5,25,70,020 | 22,94,62,740 | 2,57,00,000 | 20,37,62,740 |
| 1900 | 28,73,72,255 | 4,00,93,100 | 24,72,79,155 | 2,63,00,000 | 22,09,79,155 |
| 1901 | 29,86,59,000 | 6,07,97,045 | 23,78,61,955 | 1,87,00,000 | 21,91,61,955 |
| 1902 | 31,66,12,945 | 7,41,84,770 | 24,24,28,175 | 2,02,00,000 | 22,22,28,175 |
| 1903 | 35,72,36,070 | 6,85,38,765 | 28,86,97,305 | 4,06,00,000 | 24,80,97,305 |
| 1904 | 38,21,16,540 | 6,66,69,520 | 31,54,47,020 | 3,45,00,000 | 28,09,47,020 |
| 1905 | 39,17,59,870 | 5,44,77,990 | 33,72,81,880 | 5,27,00,000 | 28,45,81,880 |
| 1906 | 44,65,65,810 | 6,76,41,930 | 37,89,23,880 | 5,27,00,000 | 32,62,23,880 |
| 1907 | 46,95,19,260 | 5,75,23,285 | 41,19,95,975 | 4,75,00,000 | 36,44,95,975 |
| 1908 | 46,88,50,345 | 8,24,21,480 | 38,64,28,865 | 6,04,00,000 | 32,60,28,865 |
| 1909 | 45,48,79,505 | 6,25,70,540 | 39,23,08,965 | 4,28,00,000 | 34,95,08,965 |
| 1910 | 54,40,84,250 | 7,89,77,730 | 46,51,06,520 | 6,53,00,000 | 39,98,06,520 |
| 1911 | 54,99,05,815 | 9,30,83,585 | 45,68,22,230 | 5,51,00,000 | 40,17,22,230 |
| 1912 | 61,36,25,095 | 8,12,00,000 | 53,24,25,095 | 8,63,00,000 | 44,61,25,095 |

# Table No. III.

## GOLD IN PAPER CURRENCY RESERVE AND TREASURIES OF THE GOVERNMENT OF INDIA.

RECEIPTS AND ISSUES (IN THOUSANDS OF POUNDS) IN EACH MONTH, 1899–1900 TO 1910–11, AND IN EACH WEEK, 1911–12 AND 1912–13.

*Part I.*—1899–1900 *to* 1910–11.

| Month. | Receipts. | Issues. | Net Receipt. + Net Issue. – | Receipts. | Issues. | Net Receipt. + Net Issue. – | Receipts. | Issues. | Net Receipt. + Net Issue. – |
|---|---|---|---|---|---|---|---|---|---|
| | 1899–1900. | | | 1900–01. | | | 1901–02. | | |
| April | 258 | — | + 258 | 904 | 440 | + 464 | 372 | 943 | — *571* |
| May | 11 | — | + 11 | 1,032 | 586 | + 446 | 563 | 155 | + 408 |
| June | 89 | — | + 89 | 1,130 | 563 | + 567 | 218 | 286 | — *68* |
| July | 69 | — | + 69 | 639 | 881 | — *242* | 263 | 282 | — *19* |
| August | 176 | — | + 176 | 473 | 795 | — *322* | 207 | 290 | — *83* |
| September | 117 | — | + 117 | 587 | 447 | + 140 | 345 | 166 | + 179 |
| October | 749 | — | + 749 | 848 | 1,530 | — *682* | 452 | 166 | + 286 |
| November | 622 | — | + 622 | 582 | 927 | — *345* | 219 | 1,179 | — *960* |
| December | 613 | — | + 613 | 705 | 1,119 | — *414* | 500 | 1,002 | — *502* |
| January | 863 | 23 | + 840 | 1,790 | 1,209 | + 581 | 499 | 150 | + 349 |
| February | 1,352 | 28 | + 1,324 | 882 | 917 | — *35* | 570 | 176 | + 394 |
| March | 1,191 | 328 | + 863 | 601 | 1,414 | — *813* | 2,583 | 189 | + 2,394 |
| Total | 6,110 | 379* | + 5,731 | 10,173 | 10,828 | — *655* | 6,791 | 4,984‡ | + 1,807 |
| Total, exclusive of withdrawals on Government account (*see* footnotes). | 6,110 | 379 | + 5,731 | 10,173 | 6,328† | + 3,845 | 6,791 | 2,982§ | + 3,809 |
| Monthly average | 509 | 32 | + 477 | 848 | 527 | + 321 | 566 | 249 | + 317 |

| | 1902–03. | | | 1903–04. | | | 1904–05. | | |
|---|---|---|---|---|---|---|---|---|---|
| April | 274 | 274 | — | 163 | 521 | — *358* | 621 | 582 | + 39 |
| May | 153 | 703 | — *550* | 214 | 421 | — *207* | 957 | 327 | + 630 |
| June | 120 | 186 | — *66* | 350 | 272 | + 78 | 1,296 | 336 | + 960 |
| July | 142 | 324 | — *182* | 428 | 247 | + 181 | 396 | 345 | + 51 |
| August | 91 | 278 | — *187* | 818 | 301 | + 517 | 584 | 908 | — *324* |
| September | 95 | 188 | — *93* | 811 | 292 | + 519 | 812 | 2,446 | — *1,634* |
| October | 224 | 262 | — *38* | 833 | 1,280 | — *447* | 302 | 323 | — *21* |
| November | 266 | 227 | + 39 | 947 | 1,123 | — *176* | 855 | 316 | + 539 |
| December | 847 | 278 | + 569 | 814 | 842 | — *28* | 1,455 | 1,950 | — *495* |
| January | 1,343 | 200 | + 1,143 | 1,588 | 2,320 | — *732* | 1,230 | 1,381 | — *151* |
| February | 1,467 | 261 | + 1,206 | 2,025 | 879 | + 1,146 | 1,212 | 527 | + 685 |
| March | 1,427 | 250 | + 1,177 | 828 | 393 | + 435 | 557 | 930 | — *373* |
| Total | 6,449 | 3,431 | + 3,018 | 9,819 | 8,891 | + 928 | 10,277 | 10,371 | — *94* |
| Total, exclusive of withdrawals on Government account (*see* footnotes). | 6,449 | 2,931‖ | + 3,518 | 9,819 | 4,630*a* | + 5,189 | 10,277 | 4,771*b* | + 5,506 |
| Monthly average | 437 | 244 | + 293 | 818 | 386 | + 432 | 856 | 397 | + 459 |

* The first issue was made on 15th January 1900.
† 4,500,000*l.* was shipped to the Secretary of State.
‡ Particulars from April 1899 to May 1901 taken from monthly returns.
§ 2,002,000*l.* was shipped to Secretary of State.
‖ 500,000*l.* was shipped to Secretary of State.
*a* 4,261,000*l.* was shipped to Secretary of State.
*b* 5,600,000*l.* was shipped to Secretary of State.

| Month. | Receipts. | Issues. | Net Receipt, + Net Issue. − | Receipts. | Issues. | Net Receipt. + Net Issue.− | Receipts. | Issues. | Net Receipt. + Net Issue.− |
|---|---|---|---|---|---|---|---|---|---|
| | **1905–06.** | | | **1906–07.** | | | **1907–08.** | | |
| April | 432 | 394 | + 38 | 334 | 1,054 | — *720* | 547 | 961 | — *414* |
| May | 396 | 487 | — *91* | 363 | 706 | — *343* | 1,486 | 1,144 | + 342 |
| June | 295 | 443 | — *148* | 362 | 561 | — *199* | 1,477 | 1,259 | + 218 |
| July | 576 | 1,454 | — *878* | 294 | 586 | — *292* | 1,256 | 855 | + 401 |
| August | 460 | 1,474 | — *1,014* | 520 | 541 | — *21* | 949 | 872 | + 77 |
| September | 657 | 1,403 | — *746* | 1,557 | 539 | + 1,018 | 695 | 834 | — *139* |
| October | 388 | 419 | — *31* | 864 | 502 | + 362 | 597 | 853 | — *256* |
| November | 925 | 1,567 | — *642* | 1,228 | 709 | + 519 | 729 | 1,274 | — *545* |
| December | 827 | 681 | + 146 | 1,028 | 697 | + 331 | 787 | 1,174 | — *387* |
| January | 644 | 1,531 | — *887* | 834 | 714 | + 120 | 852 | 1,088 | — *236* |
| February | 396 | 832 | — *436* | 442 | 889 | — *447* | 1,300 | 1,252 | + 48 |
| March | 257 | 1,230 | — *973* | 459 | 933 | — *474* | 875 | 989 | — *114* |
| Total | 6,253 | 11,915 | — *5,662* | 8,285 | 8,431 | — *146* | 11,550 | 12,555 | — *1,005* |
| Total, exclusive of withdrawals on Government account (*see* footnote). | 6,253 | 5,915* | + 338 | 8,285 | 8,431 | — *146* | 11,550 | 12,555 | — *1,005* |
| Monthly Average | 521 | 493 | + 28 | 690 | 702 | — *12* | 962 | 1,046 | — *84* |

| | **1908–09.** | | | **1909–10.** | | | **1910–11.** | | |
|---|---|---|---|---|---|---|---|---|---|
| April | 626 | 1,177 | — *551* | 61 | 79 | — *18* | 313 | 656 | — *343* |
| May | 555 | 1,193 | — *638* | 44 | 53 | — *9* | 173 | 815 | — *642* |
| June | 523 | 902 | — *379* | 43 | 39 | + 4 | 170 | 1,112 | — *942* |
| July | 827 | 820 | + 7 | 32 | 43 | — *11* | 286 | 862 | — *576* |
| August | 367 | 726 | — *359* | 24 | 33 | — *9* | 219 | 883 | — *664* |
| September | 317 | 863 | — *546* | 10 | 20 | — *10* | 270 | 713 | — *443* |
| October | 279 | 595 | — *316* | 11 | 21 | — *10* | 276 | 664 | — *388* |
| November | 217 | 290 | — *73* | 26 | 22 | + 4 | 1,676 | 1,052 | + 624 |
| December | 151 | 149 | + 2 | 1,916 | 98 | + 1,818 | 973 | 1,210 | — *237* |
| January | 129 | 214 | — *85* | 3,749 | 257 | + 3,492 | 2,808 | 1,031 | + 1,777 |
| February | 129 | 139 | — *10* | 875 | 401 | + 474 | 2,171 | 1,067 | + 1,104 |
| March | 88 | 106 | — *18* | 1,242 | 623 | + 619 | 2,018 | 1,008 | + 1,010 |
| Total | 4,208 | 7,174 | — *2,966* | 8,033 | 1,689 | + 6,344 | 11,353 | 11,073 | + 280 |
| Total, exclusive of withdrawals on Government account (*see* footnote). | 4,208 | 6,934† | — *2,726* | 8,033 | 1,689 | + 6,344 | 11,353 | 11,073 | + 280 |
| Monthly average | 351 | 578 | — *227* | 669 | 141 | + 528 | 946 | 923 | + 23 |

* 6,000,000*l.* was shipped to Secretary of State.
† 240,248*l.* 12*s.* 4*d.*, light sovereigns and bullion shipped to Secretary of State.

## *Part II.*—1911-12 *and* 1912-13.

| | Receipts. | Issues. | Net Receipt. + Net Issue. − | Receipts. | Issues. | Net Receipt. + Net Issue. − |
|---|---|---|---|---|---|---|
| | **1911-12.** | | | **1912-13.** | | |
| 7th April | 329 | 293 | + 36 | 439 | 469 | − *30* |
| 15th April | 402 | 378 | + 24 | 575 | 503 | + 72 |
| 22nd April | 478 | 238 | + 240 | 424 | 454 | − *30* |
| 30th April | 206 | 239 | − *33* | 684 | 440 | + 244 |
| 7th May | 381 | 253 | + 128 | 716 | 531 | + 185 |
| 15th May | 221 | 373 | − *152* | 607 | 513 | + 94 |
| 22nd May | 476 | 385 | + 91 | 258 | 481 | − *223* |
| 31st May | 235 | 335 | − *100* | 740 | 679 | + 61 |
| 7th June | 308 | 327 | − *19* | 668 | 573 | + 95 |
| 15th June | 147 | 308 | − *161* | 1,109 | 559 | + 550 |
| 22nd June | 141 | 182 | − *41* | 614 | 440 | + 174 |
| 30th June | 260 | 243 | + 17 | 1,128 | 353 | + 775 |
| 7th July | 140 | 313 | − *173* | 587 | 427 | + 160 |
| 15th July | 135 | 247 | − *112* | 510 | 320 | + 190 |
| 22nd July | 175 | 202 | − *27* | 372 | 227 | + 145 |
| 31st July | 448 | 172 | + 276 | 494 | 260 | + 234 |
| 7th August | 428 | 257 | + 171 | 918 | 343 | + 575 |
| 15th August | 138 | 249 | − *111* | 183 | 289 | − *106* |
| 22nd August | 152 | 154 | − *2* | 668 | 207 | + 461 |
| 31st August | 139 | 182 | − *43* | 264 | 234 | + 30 |
| 7th September | 205 | 250 | − *45* | 740 | 351 | + 389 |
| 15th September | 92 | 197 | − *105* | 152 | 225 | − *73* |
| 22nd September | 280 | 157 | + 123 | 480 | 239 | + 241 |
| 30th September | 208 | 187 | + 21 | 283 | 269 | + 14 |
| 7th October | 287 | 234 | + 53 | 502 | 362 | + 140 |
| 15th October | 557 | 283 | + 274 | 647 | 304 | + 343 |
| 22nd October | 279 | 235 | + 44 | 241 | 364 | − *123* |
| 31st October | 959 | 216 | + 743 | 428 | 2,269* | − *1,841* |
| 7th November | 211 | 327 | − *116* | 255 | 552* | − *297* |
| 15th November | 1,248 | 305 | + 943 | 274 | 495 | − *221* |
| 22nd November | 105 | 306 | − *201* | 187 | 374 | − *187* |
| 30th November | 381 | 242 | + 139 | 423 | 433 | − *10* |
| 7th December | 102 | 299 | − *197* | 269 | 591 | − *322* |
| 15th December | 306 | 259 | + 47 | 543 | 454 | + 89 |
| 22nd December | 654 | 370 | + 284 | 578 | 600 | − *22* |
| 31st December | 386 | 227 | + 159 | 1,189 | 583 | + 606 |
| 7th January | 733 | 423 | + 310 | 1,276 | 553 | + 723 |
| 15th January | 1,447 | 426 | + 1,021 | 700 | 574 | + 126 |
| 22nd January | 874 | 481 | + 393 | 1,090 | 508 | + 582 |
| 31st January | 1,130 | 480 | + 650 | 1,459 | 806 | + 653 |
| 7th February | 1,291 | 572 | + 719 | 833 | 587 | + 246 |
| 15th February | 1,362 | 638 | + 724 | 594 | 596 | − *2* |
| 22nd February | 1,079 | 316 | + 763 | 462 | 454 | + 8 |
| 29th February | 876 | 318 | + 558 | 784 | 334 | + 450 |
| 7th March | 616 | 364 | + 252 | 579 | 871 | − *292* |
| 15th March | 1,013 | 387 | + 626 | 561 | 1,045* | − *484* |
| 22nd March | 787 | 334 | + 453 | 293 | 432 | − *139* |
| 31st March | 1,115 | 454 | + 661 | 552 | 671 | − *119* |
| Total | 23,922 | 14,617 | + 9,305 | 28,332 | 24,198 | + 4,134 |
| Total, exclusive of withdrawals on Government account (*see* footnote. | 23,922 | 14,617 | + 9,305 | 28,332 | 21,815* | + 6,517 |
| Monthly average | 1,993 | 1,218 | + 775 | 2,361 | 1,818 | + 543 |

* 2,382,613*l.* light weight sovereigns were shipped to Secretary of State: 1,875,700*l.* 10*s* on 26th October 1912, 53,887*l.* on 6th November 1912, and 453,025*l.* 10*s.* on 15th March 1913.

# Table No. IV.

## Amount of Silver held in Reserves, and New Coinage, 1894–95 to 1912–13.

| (1) Year. | (2) Coined Silver held at commencement of Year. | | | (3) Coined Silver held at end of Year. | | | (4) Net Increase(+) or Decrease(−) in Amount held. | (5) Total coinage, less recoinage. | (6) Remarks. |
|---|---|---|---|---|---|---|---|---|---|
| | Currency. | Gold Standard Reserve. | Total. | Currency. | Gold Standard Reserve. | Total. | | | |
| 1894–95 | 22,41 | — | 22,41 | 22,70 | — | 22,70 | + 29 | 3·04 | Figures in columns (2) to (4) inclusive relate to whole rupees only. Those in column (5) include in addition the amount of small silver coinage. |
| 1895–96 | 22,70 | — | 22,70 | 17,97 | — | 17,97 | − *4,73* | ·24 | |
| 1896–97 | 17,97 | — | 17,97 | 13,75 | — | 13,75 | − *4,22* | − *6·80* | |
| 1897–98 | 13,75 | — | 13,75 | 14,51 | — | 14,51 | + 76 | 37·88 | |
| 1898–99 | 14,51 | — | 14,51 | 15,15 | — | 15,15 | + 64 | 37·25 | |
| 1899–1900 | 15,15 | — | 15,15 | 5,24 | — | 5,24 | − *9,91* | 1,32·08 | |
| 1900–01 | 5,24 | — | 5,24 | 9,42 | — | 9,42 | + 4,18 | 16,93·65 | |
| 1901–02 | 9,42 | — | 9,42 | 11,13 | — | 11,13 | + 1,71 | 3,82·40 | |
| 1902–03 | 11,13 | — | 11,13 | 10,93 | — | 10,93 | − *20* | 3,24·98 | |
| 1903–04 | 10,93 | — | 10,93 | 11,49 | — | 11,49 | + 56 | 11,15·53 | |
| 1904–05 | 11,49 | — | 11,49 | 11,36 | — | 11,36 | − *13* | 7,81·20 | |
| 1905–06 | 11,36 | — | 11,36 | 13,58 | — | 13,58 | + 2,22 | 16,87·67 | |
| 1906–07 | 13,58 | — | 13,58 | 13,70 | 6,00 | 19,70 | + 6,12 | 23,37·81 | |
| 1907–08 | 13,70 | 6,00 | 19,70 | 25,18 | 6,00 | 31,18 | + 11,48 | 15,69·16 | |
| 1908–09 | 25,18 | 6,00 | 31,18 | 31,12 | 15,88 | 47,00 | + 15,82 | 24·51 | |
| 1909–10 | 31,12 | 15,88 | 47,00 | 29,28 | 3,80 | 33,08 | − *13,92* | 11·39 | |
| 1910–11 | 29,28 | 3,80 | 33,08 | 26,06 | 2,90 | 28,96 | − *4,12* | 19·94 | |
| 1911–12 | 26,06 | 2,90 | 28,96 | 15,40 | 2,90 | 18,30 | − *10,66* | — | |
| 1912–13 | 15,40 | 2,90 | 18,30 | 16,45 | 6,00 | 22,45 | + 4,15 | 15,75·00 | *Estimated. |
| | | | | | | | Total | 117,26·93 | |
| | | | | | | | | 4 | Difference between stocks held 1st April 1894 and 1st April 1913. |
| | | | | | | | | 117,22·93 | |
| | | | | | | | | 617·21 | |

The stock of rupees in Paper Currency Reserve at 1st April 1894 was 2,241 lakhs. The stock in Paper Currency Reserve and Gold Standard Reserve combined at 31st March 1913 was 2,245 lakhs. Thus the average annual addition from new coinage required (*see* col. 5) to keep up a stock of 2,241 lakhs appears to be 617·21 lakhs $\left(\frac{117,22·93}{19}\right)$

## NOTE II.

*(See paragraph 6 of Memorandum, p. 240.)*

### Increases in invested portion of Paper Currency Reserve sanctioned in 1904 and 1911. Correspondence between Government of India and Secretary of State.

### Letter from the Government of India, No. 295, dated 18th August 1904, to the Secretary of State for India.

Simla,
18th August 1904.

Sir,

We have the honour to submit, for your favourable consideration, a proposal to amend Section 19 of the Indian Paper Currency Act, 1882 (XX. of 1882), so as to raise from ten to twelve crores of rupees, the amount of the Paper Currency Reserve which may be invested, and to permit of the additional two crores being held by the Secretary of State in London in gold securities of the Government of India or of the United Kingdom.

2. The maximum limit of the invested portion of the Reserve was raised in 1896 from eight to ten crores, and, acting on the sanction accorded in Lord George Hamilton's telegram of the 17th of December 1896, Lord Elgin's Government increased the investment in that month to the full amount permissible by law.

3. Since that time there has been a large increase in the circulation of currency notes, as the following figures show. The average, minimum, and maximum of the total circulation for the years 1896–97 to 1903–04 have been (in lakhs of rupees) :—

| | 1896-97. | 1897-98. | 1898-99. | 1899-1900. | 1900-01. | 1901-02. | 1902-03. | 1903-04. |
|---|---|---|---|---|---|---|---|---|
| Average - | 25,98 | 24,24 | 25,63 | 27,96 | 28,88 | 30,03 | 33,74 | 36,41 |
| Minimum - | 23,58 | 22,86 | 23,25 | 26,26 | 27,90 | 27,68 | 31,25 | 33,94 |
| Maximum - | 29,59 | 24,76 | 28,20 | 29,27 | 30,78 | 31,86 | 35,72 | 38,21 |

Excluding the notes held in the Government Reserve Treasuries and at the head offices of the Presidency Banks, these figures become modified as follows :—

| | 1896-97. | 1897-98. | 1898-99. | 1899-1900. | 1900-01. | 1901-02. | 1902-03. | 1903-04. |
|---|---|---|---|---|---|---|---|---|
| Average - | 21,40 | 20,35 | 20,79 | 23,09 | 23,86 | 23,16 | 25,74 | 28,70 |
| Minimum - | 20,57 | 19,44 | 19,43 | 21,94 | 22,85 | 22,39 | 23,93 | 27,44 |
| Maximum - | 22,38 | 21,20 | 22,49 | 24,41 | 25,02 | 24,40 | 27,35 | 30,30 |

4. It will be seen that the average net circulation has risen in these seven years from 21·4 to 28·7 crores, or by 34 per cent., and that an increase of two crores in the invested portion of the Reserve would raise the latter to less than 42 per cent. of the average net circulation of the past year. We do not think it safe to assume that the high level of that year will invariably be

maintained, but in view of the fact that the minimum net circulation has not fallen below 22,39 lakhs in the last four years, we are of opinion that the proposed increase of the investment is fully justified.

5. We have consulted the Presidency Banks and the Chambers of Commerce on the subject, and we enclose a copy of their replies. It will be seen that, with the solitary exception of the Bank of Bombay, they are unanimously of opinion that the investment can safely be increased to the extent proposed. We do not think it necessary to dwell on the objections raised by the Bank of Bombay, which are based on the theory that the rupees in India are, or are in danger of becoming, redundant. We have provided as far as possible against this danger by crediting the profits of coinage to the Gold Reserve Fund, and the steady growth of that fund affords, in our opinion, the best guarantee against the depreciation of the rupee. The argument of the Bombay Bank that gold should be held in India instead of being invested appears to be aimed against the investment of the Gold Reserve Fund rather than against the proposal now under discussion; and, since the principle of investment has been accepted in the case of that fund, (to the extent of a substantial portion thereof, though not necessarily to the whole) it seems to us to be unprofitable to discuss it in connection with the minor question of the investment of the Currency Reserve.

6. We turn therefore to the question of making the investment in gold securities. Different opinions have been expressed on this point, and some of the bodies consulted appear to have been influenced by considerations other than the security of the Reserve and the convertibility of the note issue. We hold strongly that these are the chief points to be considered, and that it would not be proper to admit into the discussion such considerations as the relief of holders of our 3 per cent. rupee loan or the improvement of our credit as borrowers in India or in London.

7. The securities selected for investment should, we think, be such as would be readily realizable if it should become necessary to convert them into coin. Such a necessity is only likely to arise in the event on a serious financial or political crisis occurring in India, and in that case our rupee securities would inevitably be depreciated and difficult to sell, while it is probable that sterling securities would not be so seriously affected, owing to the greater capacity and solidity of the London market.

8. The possession of sterling securities would carry the further advantage that the proceeds would be receivable in London, *i.e.*, in the market in which, if more rupees were required, we should have to buy silver, and in which also, if gold were required for strengthening exchange, the demand would make itself felt.

9. Lastly, in the event of our being compelled to sell any of the securities held in the Currency Reserve, it would be convenient to have two or more classes of stock to choose from, and this power of selection would probably reduce the loss on the transaction.

10. For these three reasons we consider that the investment in sterling instead of rupee securities would be distinctly advantageous.

11. In the Despatch* recommending the last increase in the investment of the Currency Reserve Lord Elgin's Government expressed a doubt whether, in considering a proposal put forward solely from the point of view of the Currency Reserve, it was right to be influenced by the possible effect which the measure might have upon the exchange value of the rupee. We are emphatically of opinion that the primary and essential function of the Currency Reserve is to secure the convertibility of notes into current coin, and that nothing whatever should be allowed to interfere with the arrangements best suited for that purpose. But so long as this condition is scrupulously satisfied, we see no reason why, in the management of the

* No. 131, dated the 2nd June 1896.

Reserve, we should not have regard to any incidental advantage which may arise therefrom. In the years which have elapsed since Lord Elgin's despatch was written it has been found that the Currency Reserve forms an important, if not an essential, part of the machinery by which the par of exchange between the sovereign and the rupee is maintained. The maintenance of a stock of both coins in the Reserve enables us to exchange them freely in India, and if a demand for gold for export should arise, owing to a temporary weakening of exchange, we should be able to meet it to a not inconsiderable extent from the Currency Reserve without depressing the sterling value of the rupee and without drawing upon the Gold Reserve Fund. Conversely the stock of rupees in the Reserve enables us to absorb redundant sovereigns and to retard the undue appreciation of the rupee until silver can be obtained from England for coinage.

12. In determining, therefore, the amount of coin which it is advisable to retain in the Currency Reserve, we are of opinion that it is not improper to take into account this secondary function which the Reserve performs in providing a margin against temporary fluctuations of exchange, and we have considered the question from this point of view. It will be observed that the Banks of Bengal and Bombay have been influenced by similar considerations: the approval of the former to the increase of the investment is subject to the proviso that the proportion of the gold held in the Reserve should be limited and not allowed to rise unduly to the prejudice of the silver reserve; while the view of the latter Bank is, as observed above, that the possession of a large sum of gold in the Reserve will strengthen the position as regards stability of exchange.

13. The proportion of silver in the Reserve which we have found by experience to be sufficient at the opening of the busy season, when the demand for rupees sets in, is approximately one-third of the total note circulation, and we have recently laid† before you a suggestion to supplement the coined rupees by a special reserve of three crores worth of silver. The average gross note circulation in the past year was 36·41 crores, and if a silver reserve were held against this, consisting of one-third (12·14 crores) in rupees *plus* 3 crores uncoined, an investment of 12 crores would leave a margin of $9\frac{1}{4}$ crores to be held in gold. If the average circulation of the past four years be taken, the margin available for gold would still be $6\frac{1}{2}$ crores. We consider that the margin thus indicated is ample, and that a larger proportion of gold is not at present required in this country.

† Despatch No. 121, dated the 28th April 1904.

14. On the above grounds we ask your permission to introduce a Bill during the next Calcutta season to give effect to the proposal stated in the first paragraph of this despatch. We propose to take up the necessary legislation in Calcutta, firstly, because it is desirable to allow the measure to be fully discussed by the representatives of commercial interests; and, secondly, because we have in hand the preparation of a Bill for the simplification and consolidation of the Paper Currency Act, which will probably have to be referred for your orders and will in that case not be ripe for introduction until the Calcutta session. We hope to be able to deal with all pending matters relating to the Currency Reserve in one Bill; but, in view of the importance of the present proposal, we have thought it advisable to refer it to you separately.

We have, &c.,

(Signed) AMPTHILL.
KITCHENER.
E. FG. LAW.
E. R. ELLES.
A. T. ARUNDEL.
H. E. RICHARDS.

Enclosure No. 1.

Letter to the Chambers of Commerce and the Presidency Banks, No. 2632A, dated the 29th April 1904, and enclosures.

Simla,
29th April 1904.

SIR,

I am directed to request that the Chamber of Commerce / Directors of the Bank of will favour the Government of India with an expression of its / their opinion on a proposal, which is under the consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from ten to twelve crores of rupees.

2. The history of the invested Reserve, and the considerations which have from time to time moved the Government of India to increase it, are set forth in Mr. Finlay's letters No. 6468, dated 23rd December 1889, and No. 5318A, dated 7th November 1895, of which copies are enclosed for reference. It has throughout been the policy of the Government of India to fix the limit for investment well within the amount of notes which has been found by experience to be necessary for the monetary transactions of the country and which may therefore confidently be expected to be always outstanding. The Governor-General in Council has approached the present proposal with the same guiding principle in view.

3. Tables are appended to this letter showing month by month from the year 1887–88 the gross circulation of currency notes in India, and also, from the year 1889–90, the net circulation, excluding the amounts held in the Reserve Treasuries of the Government and at the head offices of the Presidency Banks. It is to the latter figures that the Government of India chiefly look in estimating the permanent circulation among the public. From the following analysis of these figures the proposed increase of the investment to 12 crores would appear to be fully justified.

4. Prior to the last increase of the investment, which was made in December 1896, the average and minimum net circulation had been as follows :—

| — | Average (Lakhs). | Minimum (Lakhs). |
|---|---|---|
| 1893–94 | 19,23 | 18,24 |
| 1894–95 | 20,21 | 18,64. |
| 1895–96 | 22,11 | 20,83 |
| 1896 (8 months) * | 21,71 | 21,37 |
| Average | 20,73 | 19,77 |

* April to November.

The corresponding statistics for the last four years are given below :—

| — | Average (Lakhs). | Minimum (Lakhs). |
|---|---|---|
| 1900–01 | 23,86 | 22,85 |
| 1901–02 | 23,16 | 22,39 |
| 1902–03 | 25,74 | 23,93 |
| 1903–04 | 28,70 | 27,44 |
| Average | 25,36 | 24,15 |

5. The sum of 10 crores of rupees to which the investment was raised in 1896 amounted to 48·24 per cent. on the previous average net circulation as worked out above, and to 50·58 per cent. on the average minimum of such circulation. A further increase now to 12 crores would bring the investment up to 47·32 per cent. on the more recent average of the net circulation and to

49·69 per cent. on the average minimum. The present circumstances correspond therefore very closely to those which prevailed in 1896, and the reasons which were put forward for an increase of the investment in that year, and which were subsequently justified by results, appear to the Government of India to be equally operative now, and fully to justify a further increase. The case for a further investment of two crores is even stronger at the present time than it was in 1896 because the net circulation has lately shown a very rapid tendency to increase, and this increase may be taken as an index of a growth of the monetary transactions of the country and consequently of the minimum amount of notes which will be necessary for such transactions.

6. Moreover, in 1896 some doubts were expressed as to the effect on the stability of exchange of a measure which would result in increasing the rupee circulation by two crores. At the present time the stock of gold in the Currency Reserve is so high that the Government of India could view with equanimity such an addition to the silver currency.

7. In this connection I am to point out that the gold held in the Reserve affords a means of effecting the proposed investment without altering the volume of the rupee currency; and I am to say that it has been suggested to the Government of India that it would be desirable for some reasons to make the investment, not in rupee securities, but in sterling securities, either of the British Government or of the Government of India. The Government of India would be glad to learn whether $\frac{\text{the Chamber has}}{\text{Your Directors have}}$ any observations to offer on this suggestion.

8. As on former occasions, if it should be decided that an increase in the amount of the investment may safely be made, care would be taken to exercise the power only on some convenient opportunity when it would be possible to carry out the operation without prejudicing the market in Government securities.

I have &c.,
R. A. MANT,
Deputy Secretary to the Government of India.

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I.—Statement showing the Circulation of Paper Currency for all India.
(*In lakhs of Rupees.*)

| Month. | 1887–88. | 1888–89. | 1889–90. | 1890–91. | 1891–92. | 1892–93. | 1893–94. | 1894–95. | 1895–96. | 1896–97. | 1897–98. | 1898–99. | 1899–1900. | 1900–01. | 1901–02. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| April | 14,02 | 16,54 | 15,83 | 17,42 | 25,71 | 23,96 | 24,22 | 30,64 | 30,76 | 25,92 | 23,91 | 24,28 | 28,02 | 27,90 | 28,59 |
| May | 13,90 | 17,03 | 15,77 | 17,65 | 26,18 | 25,28 | 24,99 | 31,13 | 30,17 | 26,89 | 22,86 | 23,25 | 28,25 | 28,65 | 29,08 |
| June | 14,08 | 17,69 | 16,24 | 17,94 | 26,81 | 26,77 | 26,49 | 31,40 | 30,86 | 27,78 | 23,39 | 24,92 | 29,14 | 30,41 | 31,82 |
| July | 15,48 | 18,06 | 16,50 | 19,18 | 27,04 | 28,46 | 27,05 | 31,20 | 32,43 | 29,59 | 24,76 | 26,24 | 29,27 | 30,78 | 31,69 |
| August | 15,66 | 17,69 | 16,15 | 20,50 | 26,93 | 29,06 | 28,30 | 31,57 | 31,54 | 28,23 | 24,60 | 26,32 | 28,76 | 28,44 | 30,88 |
| September | 16,78 | 16,94 | 16,14 | 22,97 | 26,24 | 28,97 | 28,98 | 31,23 | 30,37 | 26,89 | 24,74 | 25,64 | 27,63 | 28,81 | 30,55 |
| October | 17,78 | 16,74 | 16,63 | 25,66 | 25,99 | 28,94 | 28,59 | 31,81 | 29,98 | 25,68 | 24,59 | 25,84 | 27,67 | 28,30 | 31,86 |
| November | 18,61 | 15,50 | 16,67 | 26,54 | 25,88 | 28,83 | 29,62 | 32,36 | 28,39 | 24,53 | 24,65 | 25,79 | 27,33 | 28,35 | 30,66 |
| December | 17,69 | 15,15 | 15,47 | 27,04 | 24,85 | 26,05 | 30,13 | 31,45 | 27,82 | 25,23 | 23,79 | 25,20 | 26,26 | 28,06 | 28,07 |
| January | 17,08 | 15,28 | 16,29 | 27,66 | 22,62 | 26,61 | 30,52 | 29,50 | 27,12 | 24,27 | 24,32 | 25,67 | 27,18 | 29,37 | 27,93 |
| February | 16,45 | 14,83 | 16,37 | 26,42 | 22,90 | 25,86 | 30,20 | 30,35 | 25,99 | 23,58 | 24,53 | 26,24 | 27,27 | 28,10 | 27,68 |
| March | 16,42 | 15,74 | 15,77 | 25,69 | 24,08 | 26,40 | 30,41 | 30,70 | 25,94 | 23,75 | 24,76 | 28,20 | 28,74 | 29,87 | 31,66 |
| Average | 16,16 | 16,43 | 16,15 | 22,89 | 25,44 | 27,10 | 28,29 | 31,11 | 29,28 | 25,98 | 24,24 | 25,63 | 27,96 | 28,88 | 30,03 |
| Maximum | 18,61 | 18,06 | 16,67 | 27,66 | 27,04 | 29,06 | 30,52 | 32,36 | 32,43 | 29,59 | 24,76 | 28,20 | 29,27 | 30,78 | 31,86 |
| Minimum | 13,90 | 14,83 | 15,47 | 17,42 | 22,62 | 23,96 | 24,22 | 29,50 | 25,94 | 23,58 | 22,86 | 23,25 | 26,26 | 27,90 | 27,68 |

I.—Statement showing the Circulation of Paper Currency excluding amounts held by the Government Reserve Treasuries and by the Presidency Banks at their Head Office. (*In lakhs of Rupees.*)

| Month. | 1889–90. | 1890–91. | 1891–92. | 1892–93. | 1893–94. | 1894–95. | 1895–96. | 1896–97. | 1897–98. | 1898–99. | 1899–1900. | 1900–01. | 1901–02. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| April | 13,20 | 13,71 | 17,28 | 18,72 | 20,84 | 18,64 | 21,81 | 21,96 | 20,33 | 19,78 | 22,50 | 23,61 | 23,13 |
| May | 13,39 | 13,96 | 17,41 | 19,47 | 19,99 | 19,00 | 21,34 | 21,53 | 19,66 | 20,10 | 22,08 | 23,67 | 22,83 |
| June | 13,40 | 13,66 | 17,90 | 19,97 | 19,49 | 19,09 | 20,83 | 21,61 | 19,75 | 19,43 | 22,19 | 23,85 | 23,31 |
| July | 13,44 | 13,73 | 17,37 | 20,59 | 19,19 | 19,10 | 21,49 | 21,37 | 20,20 | 20,16 | 21,94 | 22,85 | 22,68 |
| August | 12,95 | 14,48 | 17,61 | 20,49 | 18,96 | 19,49 | 21,58 | 21,75 | 20,67 | 20,37 | 22,63 | 23,15 | 22,45 |
| September | 13,20 | 15,13 | 17,69 | 21,66 | 19,09 | 19,55 | 22,37 | 21,51 | 21,16 | 20,42 | 22,69 | 23,84 | 22,39 |
| October | 13,51 | 15,88 | 19,17 | 22,12 | 18,83 | 20,12 | 23,04 | 22,38 | 21,08 | 20,59 | 23,87 | 24,42 | 22,86 |
| November | 13,31 | 15,67 | 19,01 | 22,30 | 18,84 | 20,65 | 22,84 | 21,60 | 21,20 | 21,31 | 23,50 | 25,02 | 23,34 |
| December | 13,69 | 16,59 | 19,39 | 22,40 | 19,66 | 21,82 | 23,02 | 20,99 | 20,73 | 21,47 | 23,83 | 24,58 | 23,97 |
| January | 13,62 | 16,92 | 18,21 | 21,76 | 19,19 | 22,15 | 22,52 | 20,80 | 20,18 | 21,53 | 23,54 | 23,62 | 23,28 |
| February | 13,33 | 17,51 | 18,44 | 21,33 | 18,24 | 21,65 | 22,40 | 20,57 | 19,44 | 21,90 | 23,77 | 23,65 | 23,35 |
| March | 13,50 | 17,62 | 18,45 | 21,68 | 18,49 | 21,31 | 22,14 | 20,76 | 19,83 | 22,49 | 24,41 | 24,14 | 24,40 |
| Average | 13,38 | 15,40 | 18,16 | 21,04 | 19,23 | 20,21 | 22,11 | 21,40 | 20,35 | 20,79 | 23,09 | 23,86 | 23,16 |
| Maximum | 13,69 | 17,62 | 19,39 | 22,40 | 20,84 | 22,15 | 23,04 | 22,38 | 21,20 | 22,49 | 24,41 | 25,02 | 24,40 |
| Minimum | 12,95 | 13,66 | 17,28 | 18,72 | 18,24 | 18,64 | 20,83 | 20,57 | 19,44 | 19,43 | 21,94 | 22,85 | 22,39 |

No. I.—Statement showing the Circulation of Paper Currency for all India. (*In lakhs of Rupees.*)

| Month. | 1902–03. | 1903–04. |
|---|---|---|
| April | 31,25 | 33,94 |
| May | 31,56 | 35,13 |
| June | 33,59 | 36,57 |
| July | 35,20 | 37,57 |
| August | 35,58 | 37,70 |
| September | 34,65 | 36,61 |
| October | 34,36 | 37,00 |
| November | 34,26 | 36,98 |
| December | 33,74 | 34,43 |
| January | 32,12 | 35,47 |
| February | 32,85 | 37,29 |
| March | 35,72 | 38,21 |
| Average | 33,74 | 36,41 |
| Maximum | 35,72 | 38,21 |
| Minimum | 31,25 | 33,94 |

No. II.—Statement showing the Circulation of Paper Currency excluding amounts held by the Government Reserve Treasuries, and by the Presidency Banks at their Head Offices. (*In lakhs of Rupees.*)

| Month. | 1902–03. | 1903–04. |
|---|---|---|
| April | 23,93 | 27,58 |
| May | 24,02 | 27,44 |
| June | 24,62 | 27,69 |
| July | 24,96 | 27,85 |
| August | 25,29 | 28,01 |
| September | 25,17 | 29,12 |
| October | 23,51 | 28,56 |
| November | 25,94 | 29,28 |
| December | 27,35 | 29,96 |
| January | 26,99 | 29,13 |
| February | 27,00 | 29,54 |
| March | 27,12 | 30,30 |
| Average | 25,74 | 28,70 |
| Maximum | 27,35 | 30,30 |
| Minimum | 23,93 | 27,44 |

Letter No. 6468, dated 23rd December 1889, from J. F. Finlay, Esq., Officiating Secretary to the Government of India, Finance and Commerce Department, to the Secretary to the Chamber of Commerce, Calcutta. / Madras. / Bombay.

I am directed by His Excellency the Governor General in Council to request that the Chamber of Commerce, Calcutta / Madras / Bombay, will be good enough to favour the Government of India with an expression of its opinion upon a proposal to increase the portion of the Paper Currency Reserve which is invested in Government securities.

2. When the issue of a Government Paper Currency was first considered by the Government of India in 1860, it was proposed to fix the limit of the portion of the Reserve which might be invested in Government securities at a fixed proportion, two-thirds, of the value of notes in circulation. But it was decided that the safer and sounder principle was to prescribe a fixed sum as the limit, that sum being somewhat less than the smallest aggregate amount of notes which experience had proved to be necessary for the monetary transactions of the country. It was considered that notes to this amount at least would always be outstanding, and that consequently it would not be necessary to keep coin in reserve for the purpose of cashing them. When this principle was adopted it was contemplated that it would be necessary to vary the limit in accordance with the circumstances of the times, and that the maximum sum that might be invested in Government securities would be fixed from time to time by legislation. In the Paper Currency Act of 1861, the sum to be so invested was fixed at four crores of rupees. In 1870 in view of the facts that the note circulation had increased considerably since that limit was fixed, and that the investment in Government securities bore a much smaller proportion to the total reserve than when the Act of 1861 was first brought into operation the limit was raised to six crores. The minimum circulation of each year from 1862 to 1870 will be found in the statement appended. The maximum limit of investment in Government securities is still six crores of rupees.

3. Since 1870 the note circulation has greatly increased, as will be seen from the Statement attached. In that year the minimum circulation was about $8\frac{3}{4}$ crores of rupees, but since 1880–81 the minimum circulation has never fallen as low as 12 crores; for the last five years the minimum has exceeded 13 crores; and in the present year it approaches 16 crores. There is no reason to doubt that the minimum circulation in the future will continue to be at least 50 per cent. in excess of the minimum of 1870. With a minimum circulation in the present year of, say, $15\frac{3}{4}$ crores, the investment of the Reserve remaining at six crores, the sum held in coin and bullion amounts to about $9\frac{3}{4}$ crores.

4. The primary consideration in dealing with this question must be the necessity of securing the immediate convertibility of the note under all circumstances to which we can reasonably look forward. His Excellency in Council has no doubt that the reserve held in coin and bullion at the present time is more than sufficient to secure convertibility under all ordinary conditions, and the question to be decided is whether or not it is necessary to maintain the present high rate of reserve with a view to possible difficulties of the future which may never arise. In connection with this aspect of the case, I am to call the attention of the Chamber to Section 21 (1) of the Paper Currency Act, 1882, under which the general credit of Government is pledged for the convertibility of the note. The Currency Reserve would, therefore, be supplied in case of need by the cash balance at the disposal of the Government of India, and the note would not cease to be convertible, even if the Currency Reserve was exhausted, so long as the Government of India could spare funds from the general cash balance at its disposal. The proposal

which has been under the consideration of the Government of India is to take power from the Legislature to increase the amount of the invested reserve to eight crores of rupees; but it is not intended for the present to increase the investment by more than one crore, any further increase up to the limit of eight crores being made only if and when circumstances are favourable; and it is possible that even the increase of one crore might not be made for some time.

5. I am to say that His Excellency in Council will be glad to be favoured with the views of the Chamber as early as may be convenient.

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Statement showing Minimum Currency Note Circulation and the Reserve in Securities on Bullion and Coin since March 1862.

| 1. | 2. | 3. | 4. | 5. | 6. | 7. |
|---|---|---|---|---|---|---|
| *Month in which the Currency Note circulation of each Year since 1862 was the lowest.* | *Minimum Note circulation referred to in (1).* | Metallic Reserve of the Currency Department (Silver and Gold* Coin and Silver Bullion). | Reserve held in Government Securities. | Silver Coin included in (3). | Percentage of (3) on (2). | Percentage of (5) on (2). |
| | Rs. | Rs. | Rs. | Rs. | | |
| March 1862–63 - | 3,69,00,000 | 3,69,00,000 | — | 3,69,00,000 | 100 | 100 |
| May 1863–64 - | 5,01,00,000 | 4,33,75,420 | 67,24,580 | 3,03,75,420 | 86·58 | 60·63 |
| June 1864–65 - | 5,99,25,690 | 2,95,30,680 | 3,03,95,010 | 2,12,30,680 | 49·28 | 35·43 |
| February 1865–66 - | 6,87,48,020 | 2,89,45,480 | 3,98,02,540 | 1,81,75,310 | 42·10 | 26·44 |
| April 1866–67 - | 7,02,02,540 | 3,04,00,010 | 3,98,02,530 | 2,68,99,800 | 43·33 | 38·32 |
| „ 1867–68 - | 7,83,54,890 | 4,58,34,340 | 3,25,20,550 | 3,82,25,130 | 58·49 | 48·78 |
| „ 1868–69 - | 8,91,63,970 | 5,66,43,420 | 3,25,20,550 | 5,12,34,210 | 63·53 | 57·46 |
| „ 1869–70 - | 9,80,32,010 | 5,89,01,940 | 3,91,30,070 | 3,43,73,730 | 60·08 | 35·06 |
| May 1870–71 - | 8,68,19,030 | 5,55,63,670 | 3,12,55,360 | 4,17,14,450 | 63·99 | 48·05 |
| April 1871–72 - | 10,13,06,840 | 6,90,34,830 | 3,22,72,010 | 6,31,88,450 | 68·14 | 62·37 |
| March 1872–73 - | 11,13,50,610 | 5,44,11,080 | 5,69,39,530 | 4,33,58,500 | 48·86 | 38·04 |
| „ 1873–74 - | 9,24,97,610 | 3,55,58,080 | 5,69,39,530 | 2,29,10,510 | 38·44 | 24·77 |
| April 1874–75 - | 9,27,43,390 | 3,58,03,860 | 5,69,39,530 | 2,42,34,270 | 38·65 | 26·13 |
| „ 1875–76 - | 10,75,44,640 | 5,06,05,110 | 5,69,39,530 | 4,20,46,580 | 47·05 | 39·09 |
| May 1876–77 - | 10,70,38,540 | 5,00,99,010 | 5,69,39,530 | 5,00,07,840 | 46·85 | 46·72 |
| April 1877–78 - | 11,13,05,280 | 5,13,24,380 | 5,99,80,900 | 3,73,00,200 | 46·11 | 33·51 |
| March 1878–79 - | 11,42,36,450 | 5,42,45,280 | 5,99,91,170 | 3,78,99,040 | 47·48 | 33·18 |
| May 1879–80 - | 11,17,12,730 | 5,25,39,570 | 5,91,73,160 | 3,93,10,380 | 47·03 | 35·19 |
| April 1880–81 - | 12,88,52,650 | 6,88,81,900 | 5,99,70,750 | 5,83,89,340 | 53·46 | 45·31 |
| „ 1881–82 - | 12,85,58,290 | 6,86,34,110 | 5,99,24,180 | 6,69,00,000 | 53·39 | 52·04 |
| „ 1882–83 - | 14,19,99,180 | 8,19,99,210 | 5,99,99,970 | 6,95,44,960 | 57·74 | 48·97 |
| January 1883–84 - | 12,10,91,100 | 6,10,91,130 | 5,99,99,970 | 5,67,25,500 | 50·45 | 46·84 |
| April 1884–85 - | 12,34,24,500 | 6,34,24,510 | 6,00,00,000 | 5,24,00,280 | 51·39 | 42·46 |
| „ 1885–86 - | 13,01,78,470 | 7,01,80,970 | 5,99,97,500 | 5,21,37,450 | 53·91 | 40·05 |
| „ 1886–87 - | 13,77,94,000 | 7,77,99,000 | 5,99,95,000 | 6,41,38,820 | 56·46 | 46·55 |
| May 1887–88 - | 13,90,32,420 | 7,90,39,920 | 5,99,92,500 | 7,08,77,980 | 56·85 | 50·98 |
| February 1888–89 - | 14,82,98,050 | 8,88,08,020 | 5,94,90,030 | 7,89,34,730 | 59·88 | 53·23 |
| 31st May 1889–90 - | 15,76,65,640 | 9,78,45,610 | 5,98,20,030 | 8,73,41,442 | 62·06 | 55·39 |
| Total Circulation since May 1889. | | | | | | |
| 30th June 1889–90 - | 16,24,30,050 | 10,26,10,021 | 5,98,20,029 | 9,72,16,771 | 63·17 | 59·85 |
| 31st July 1889–90 - | 16,49,51,130 | 10,51,31,101 | 5,98,20,029 | 9,97,63,602 | 63·73 | 60·48 |
| 31st Aug. 1889–90 - | 16,15,23,510 | 10,15,23,530 | 5,99,99,980 | 9,22,08,752 | 62·85 | 57·08 |
| 30th Sept. 1889–90 | 16,13,80,895 | 10,13,80,915 | 5,99,99,980 | 9,04,04,379 | 62·82 | 56·02 |
| 31st Oct. 1889–90 - | 16,62,98,105 | 10,62,98,125 | 5,99,99,980 | 9,53,17,630 | 63·92 | 57·32 |
| 30th Nov. 1889–90 - | 16,66,77,605 | 10,66,77,625 | 5,99,99,980 | 9,79,93,406 | 64· | 58·79 |

* From 1865 to February 1876.

Letter No. 5318A, dated 7th November 1895, from J. F. Finlay, Esq., Secretary to the Government of India, Finance and Commerce Department, to the Secretary, Chamber of Commerce, Calcutta. / Madras. / Bombay.

I am directed by His Excellency the Governor-General in Council to request that the Chamber of Commerce will be good enough to favour the Government of India with an expression of their opinion upon a proposal to take power from the Legislature to raise the limit of the Paper Currency Reserve which is held in Government securities, from eight to ten crores of rupees.

2. The maximum limit of the invested Reserve was raised on the last occasion in 1890 from six to eight crores by Act XV. of 1890, and in accordance with the requirements of the Currency Act the increases to the investment from time to time were separately notified, the limit of the investment having been raised to seven crores by the Notification in this Department, No. 5900, dated 19th December 1890, and to eight crores by the Notification No. 4861, dated 3rd December 1891.

3. The considerations involved in the question of an increase in the currency investment were fully discussed in 1890, and the history of the subject was brought down to 1889 in my letter to the Chambers of Commerce No. 6468, dated 23rd December 1889, a copy of which is enclosed. The following table gives the figures of the circulation of Paper Currency for all India from 1887–88 (*in lakhs of Rupees*):—

| Month. | 1887–88. | 1888–89. | 1889–90. | 1890–91. | 1891–92. | 1892–93. | 1893–94. | 1894–95. | 1895–96. |
|---|---|---|---|---|---|---|---|---|---|
| April | 14,02 | 16,54 | 15,83 | 17,42 | 25,71 | 23,96 | 24,22 | 30,64 | 30,76 |
| May | 13,90 | 17,03 | 15,77 | 17,65 | 26,18 | 25,28 | 24,99 | 31,13 | 30,17 |
| June | 14,08 | 17,69 | 16,24 | 17,94 | 26,81 | 26,77 | 26,49 | 31,40 | 30,86 |
| July | 15,48 | 18,06 | 16,50 | 19,18 | 27,04 | 28,46 | 27,05 | 31,29 | 32,43 |
| August | 15,66 | 17,69 | 16,15 | 20,50 | 26,93 | 29,06 | 28,30 | 31,57 | 31,54 |
| September | 16,78 | 16,94 | 16,14 | 22,97 | 26,24 | 28,97 | 28,98 | 31,23 | — |
| October | 17,78 | 16,74 | 16,63 | 25,66 | 25,99 | 28,94 | 28,59 | 31,81 | — |
| November | 18,61 | 15,50 | 16,67 | 26,54 | 25,88 | 28,83 | 29,62 | 32,36 | — |
| December | 17,69 | 15,15 | 15,47 | 27,04 | 24,85 | 26,05 | 30,13 | 31,45 | — |
| January | 17,08 | 15,28 | 16,29 | 27,66 | 22,62 | 26,61 | 30,52 | 29,50 | — |
| February | 16,45 | 14,83 | 16,37 | 26,42 | 22,90 | 25,86 | 30,20 | 30,35 | — |
| March | 16,42 | 15,74 | 15,77 | 25,69 | 24,08 | 26,40 | 30,41 | 30,70 | — |
| Average | 16,16 | 16,43 | 16,15 | 22,89 | 25,44 | 27,10 | 28,29 | 31,11 | — |
| Maximum | 18,61 | 18,06 | 16,67 | 27,66 | 27,04 | 29,06 | 30,52 | 32,36 | — |
| Minimum | 13,90 | 14,83 | 15,47 | 17,42 | 22,62 | 23,96 | 24,22 | 29,50 | — |

The above figures indicate that the total circulation of currency notes has steadily increased since the year 1887–88, and has now reached a figure about double that of the year 1889–90. But the Government of India are of opinion that these figures of total circulation show the increase as larger than can be considered to be the normal increase which may, with due regard to the caution desirable in the discussion of the question now under consideration, be counted on as certain to continue. In the first place, the Government balances during the past two years have been unusually high, and a great portion of the excess balances, held in the Government Reserve Treasuries in currency notes is included in the circulation. Secondly, the figures include the notes held by the Presidency Banks at their head offices, but the demands for encashment of notes so held are occasionally so large that a considerable portion of them cannot be treated as permanently in circulation.

4. On the grounds above explained, it is considered that for the present purpose it is desirable, in order to prevent all risk of over estimating the

permanent circulation, to exclude the balances of currency notes in the head offices of the Presidency Banks and in the Reserve Treasuries from the total circulation. After such exclusion the figures for 1889–90 and subsequent years in the Table in paragraph 3 will stand as follows :—(*In lakhs of Rupees.*)

| Month. | 1889–90. | 1890–91. | 1891–92. | 1892–93. | 1893–94. | 1894–95. | 1895–96. |
|---|---|---|---|---|---|---|---|
| April | 13,20 | 13,71 | 17,28 | 18,72 | 20,84 | 18,64 | 21,81 |
| May | 13,39 | 13,96 | 17,41 | 19,47 | 19,99 | 19,00 | 21,34 |
| June | 13,40 | 13,66 | 17,90 | 19,97 | 19,49 | 19,09 | 20,83 |
| July | 13,44 | 13,73 | 17,37 | 20,59 | 19,19 | 19,10 | 21,49 |
| August | 12,95 | 14,48 | 17,61 | 20,49 | 18,96 | 19,49 | 21,58 |
| September | 13,20 | 15,13 | 17,69 | 21,66 | 19,09 | 19,55 | — |
| October | 13,51 | 15,88 | 19,17 | 22,12 | 18,83 | 20,12 | — |
| November | 13,31 | 15,67 | 19,01 | 22,30 | 18,84 | 20,65 | — |
| December | 13,69 | 16,59 | 19,39 | 22,40 | 19,66 | 21,82 | — |
| January | 13.62 | 16,92 | 18,21 | 21.76 | 19,19 | 22,15 | — |
| February | 13,33 | 17,51 | 18,44 | 21,33 | 18,24 | 21,65 | — |
| March | 13,50 | 17,62 | 18,45 | 21,68 | 18,49 | 21,31 | — |
| Average | 13,38 | 15,40 | 18,16 | 21,04 | 19,23 | 20,21 | — |
| Maximum | 13,69 | 17,62 | 19,39 | 22,40 | 20,84 | 22,15 | — |
| Minimum | 12,95 | 13,66 | 17,28 | 18,72 | 18,24 | 18,64 | — |

From this Table it is observed that when the last increase to the investment was discussed towards the end of 1889, the circulation (excluding balances in the Reserve Treasuries and head offices of the Presidency Banks) amounted to only about 13 to 13½ crores, while during the three years ending 1894–95 the minimum circulation has been well above 18 crores.

5. On a consideration of the figures given above, it appears to the Government of India that the circulation of Currency notes has now attained a level about 50 per cent. higher than in the year 1889–90, and that it will be quite safe now to raise the limit of the investment to ten crores. The figures might indeed justify an even greater increase in the investment, but the Government of India do not desire to go to the full limit of safety. An investment of the Reserve to the extent of ten crores would represent only about 50 per cent. of the average circulation as given in paragraph 4. The proposed increase would therefore appear to leave a fully sufficient margin to secure the immediate convertibility of the note even during a commercial crisis. As previously explained in paragraph 4 of my letter of 23rd December 1889,* over and above the reserve of coin and securities, the general credit of Government is pledged for the convertibility of the note under section 21 (1) of the Paper Currency Act.

* Copy enclosed.

6. The proposal which His Excellency the Governor-General in Council is disposed to make now is to take power from the Legislature to increase the limit of the investment from eight to ten crores, and for the reasons above explained, he considers, subject to the opinions he may receive from the Presidency Banks and the Chambers of Commerce, that this power may be used with safety on some convenient occasion when it may be possible to carry out the operation without affecting the public market.

7. I am to say that His Excellency in Council will be glad to be favoured with the views of the Chamber as early as may be convenient.

Enclosure No. 2.

No. G.P.L. 122–6, dated Madras, the 17th May 1904.

From J. Kerr Greig, Esq., Acting Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 2632A., dated the 29th ultimo, on the subject of a proposal, which is under the consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees, and in reply I am desired to say that, in view of the recent increase in the permanent circulation, my Directors are of opinion that the proposed increase of two crores of rupees in the invested portion of the Reserve may be made with safety.

2. My Directors are also of opinion that the investment should be made in rupee securities of the Government of India as giving the best return, and it appears to them that advantage might be taken of the issue of the new loan as a convenient opportunity to carry out the operation without prejudice to the market.

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Enclosure No. 3.

Dated Cawnpore, the 23rd May 1904.

From A. Shakespear, Esq., Assistant Secretary, Upper India Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department.

I am directed to acknowledge receipt of your letter No. 2632A., dated 29th ultimo, inviting the views of this Chamber on a proposal to augment the invested portion of the Paper Currency Reserve by a transfer of two crores of rupees from the metallic Reserve.

2. My Committee have carefully studied the correspondence dealing with the past history of the Currency Reserve, which served as an accompaniment to your communication, and in their opinion the present position fully justifies the proposal now put forward, which is deserving of the undivided support of the commercial community.

The question involved in paragraph 7 of your letter is perhaps a difficult one to express an opinion on without a fuller knowledge of the principles which are to regulate the Government of India's policy with regard to future borrowings, but looking to the fact that it would result in a reduction in the amount of interest payable in sterling, my Committee are disposed to recommend that Indian sterling loans should be selected for investment of the Currency Reserve, and the present ratio of gold and silver composing the metallic Reserve would seem to indicate the expediency of releasing two crores from the gold portion of the Reserve.

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Enclosure No. 4.

Dated Bombay, the 26th May 1904.

From C. H. Armstrong, Esq., Chairman, Bombay Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department.

Under the instructions of the Committee of the Bombay Chamber of Commerce, I have the honour to acknowledge the receipt of your letter No. 2632A., of the 29th April 1904 (with accompaniments), in which the opinion of the Chamber is invited relative to a proposal, which is under the

consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from ten to twelve crores of rupees.

2. The matter has received very careful consideration, and I am now instructed to say—

(1) The Committee are in favour of the invested portion of the Paper Currency Reserve being raised from 10 to 12 crores, as the position at present seems to warrant such an increase.

(2) With reference to the enquiry in paragraph 7 of the Government of India's letter as to whether this Chamber has any observations to offer on the suggestion that the investment might be made in sterling securities, my Committee desire to remark that as a depletion of the moderate supply of coined rupees now held in the silver Reserve seems to them undesirable, they favour the proposed investment being made in sterling securities, the stock of gold which at the present time is not much needed for the purposes of circulation being sufficient for such a purpose.

Should the Government of India decide, however, on investing in silver securities, my Committee would suggest that consideration be shown to the holders of the 3 per cent. Loan and that the investment should be largely made in this paper.

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Enclosure No. 5.

Dated Rangoon, the 20th May 1904.

From The Honourable C. H. Wilson, C.I.E., Chairman, Rangoon Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge the receipt of your letter No. 2632A., dated 29th April 1904, with enclosures, inviting the opinion of this Chamber on (1) a proposal to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees, and (2) on the suggestion that the additional investment should not be in rupee securities but in sterling securities either of the British Government or of the Government of India.

2. In reply I have the honour to say that, the proposed increase of the invested portion of the Currency Reserve from ten to twelve crores appears to be in accordance with precedent, and the conservative policy hitherto pursued by the Indian Government in this connection, and in the opinion of the Committee, is amply justified by the facts and figures laid before them.

3. With regard to the suggestion that the additional two crores should be invested in sterling securities either of the British Government or of the Government of India, the Committee venture to draw attention to the disparity still observable between the market values of these and the rupee securities of the Indian Government, a disparity which can only be due to the scepticism still prevalent in some quarters as to the stability of Indian exchange.

4. The Committee believe that any investment of the nature suggested, would tend still further to accentuate this divergence to the obvious detriment alike of the Indian Government and the Indian investor, while a converse effect should be produced by an investment of the two crores in rupee securities, for which reason the Committee are strongly in favour of the latter course.

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## Enclosure No. 6.

Dated Calcutta, the 25th May 1904.

From W. D. Cruickshank, Esq., Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 2632A., dated 29th ultimo, asking for the opinion of the Directors of the Bank on a proposal, which is under the consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees. Your letter encloses for reference copies of Mr. Finlay's letters of 23rd December 1889 and 7th November 1895, giving the history of the invested reserve and the considerations which have from time to time moved the Government of India to increase it.

The Directors have considered these letters, with the statements that accompanied them, and also the reports and statistics published by the Head Commissioner of Paper Currency.

2. The Directors observe that soon after the increase in the invested portion of the Currency Reserve in 1896 a considerable contraction of the gross note circulation took place, and that it continued for upwards of two years without showing any marked sign of recovery. The figures are as follows. (*In lakhs of Rupees*) :—

| Years. | Gross Note Circulation. | Reserves. | | | Investments. | Proportion of Uninvested Reserve to Circulation. |
|---|---|---|---|---|---|---|
| | | Silver. | Gold. | Total. | | |
| 1894–95 - - | 31,11 | 23,11 | — | 23,11 | 8·00 | 74·28 |
| 1895–96 - - | 29,28 | 21,28 | — | 21,28 | 8·00 | 72·67 |
| 1896–97 - - | 25,98 | 17,31 | — | 17,31 | 10·00 | 66·62 |
| 1897–98 - - | 24,24 | 14,22 | — | 14,22 | 10·00 | 58·66 |
| 1898–99 - - | 25,63 | 14,93 | 70 | 15,63 | 10·00 | 60·98 |

In the years 1894–95 to 1897–98 the whole of the uninvested portion of the Currency Reserve consisted of silver only and it is understood that throughout the whole period even when the gross note circulation was at its lowest point, the coined rupees in hand were amply sufficient to meet all demands. The increase in the invested portion of the Currency Reserve effected in 1896 was therefore fully justified by results.

3. The expansion of the gross note circulation from the lowest point touched in 1897–98 has been continuous and important, but the uninvested effective reserve in silver has not increased in proportion, as gold has taken the place of silver to a very large extent. The following figures, which are taken chiefly from the Head Commissioner's Report, dated 31st July 1903, show the progress of the gross note circulation and Reserves for the last four years (*In lakhs of rupees*) :—

| Years. | Gross Note Circulation. | Reserves. | | | | Proportion of Uninvested Coin to Note Circulation. | | |
|---|---|---|---|---|---|---|---|---|
| | | Silver. | Gold. | Total. | Investments. | Silver. | Gold. | Total. |
| 1899–1900 - | 27,96 | 11,42 | 6,54 | 17,96 | 10,00 | 40·84 | 23·39 | 64·23 |
| 1900–01 - | 28,88 | 6,68 | 12,19 | 18,87 | 10,00 | 23·13 | 42·20 | 65·33 |
| 1901–02 - | 30,03 | 12,42 | 7,62 | 20,04 | 10,00 | 41·35 | 25·37 | 66·72 |
| 1902–03 - | 33,74 | 13,50 | 10,24 | 23,74 | 10,00 | 40·01 | 30·35 | 70·35 |

4. As already stated, the uninvested silver reserve from 1894–95 to 1898–99 appears to have been amply sufficient to meet all demands upon it,

but the same cannot be said of it throughout the years 1899–1900 to 1902–03. For the greater part of the calendar year 1900 the uninvested silver reserve in the Currency Department was inadequate, and the scarcity of silver coin caused great inconvenience to the public generally, and to traders some actual loss as well.

5. It was thought at the time that the Government of India delayed the coinage of silver because of an undue apprehension of a redundancy in the circulation, and a desire to increase the gold reserve to a high figure.

6. By means of coinage and large additions to the silver reserve the inconvenience was in time removed, and there has been no recurrence, but the experience is a recent one, and the recollection of it is apt to give rise to apprehension whenever the silver reserve shows a tendency to run down, or when large demands for silver coin appear to be probable, as was recently the case.

7. The amount of the invested Currency Reserve is fixed from time to time by legislation. The Directors do not at present go so far as to suggest that the amount of gold to be held in the uninvested Reserve should be similarly fixed, but they think it is desirable that provision be made departmentally for the replenishment of the silver reserve automatically whenever it may fall or show signs of falling to a certain point, and that this point should be fixed well above the amount which experience shows to be a safe provision for all probable demands.

8. Subject to the proportion of gold in the uninvested portion of the Currency Reserve being limited and not allowed to rise unduly to the prejudice of a safe silver reserve, I am to inform you that the Directors are of opinion that the proposal to increase the investments from 10 crores to 12 crores is warranted by the position and prospects of the note circulation of the country.

9. With regard to the suggestion that it would be desirable for some reasons to make the investment not in rupee securities but in sterling securities, either of the British Government or of the Government of India, I am to inform you that the Directors think that there is something to be said in favour of such a step, although it is a departure from ordinary practice. In the first place, the invested portion of a Currency Reserve, to be really effective in case of need, should be readily saleable, and there can be no doubt that sterling securities either of the British Government or of the Government of India would be more readily saleable in London than rupee securities either in this country or in London. Besides, as the sterling securities would doubtless be held in London, the proceeds of sales would be immediately available on the spot for the purchase of silver or gold, as required, at the chief source of supply. Again, the investment of the Currency Reserves in sterling securities would leave the issues of rupee paper free to investors in this country. In this connection I am instructed to attach hereto an extract from a letter addressed by the Bank to the Bengal Chamber of Commerce, on 15th November 1902, relative to the large increase that has taken place in previous years in the amount of rupee paper held by Native investors, and to the desirability of encouraging such investments. The statements referred to in that letter have been made up to date, and show a further marked increase in the amount of Native holdings, while there is corresponding decrease in the amount of rupee paper held in London.

Extract from a Letter from the Secretary and Treasurer, Bank of Bengal, to the Secretary, Bengal Chamber of Commerce, Calcutta, dated 15th November 1902.

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I beg to enclose herewith statements showing the amounts of enfaced and unenfaced rupee paper outstanding at the end of March each year since 1893, together with the amounts of all new issues and repayments, and, with reference thereto, to state that the Bank of Bengal attached great importance to the Government Rupee Loans being taken up and held in India, more especially by Native investors, and take every opportunity of encouraging this form of investment. You will observe that India has not only taken up and retained all Rupee Loans issued in the course of the last 10 years, but has also absorbed in the same period about 6¼ crores worth of paper re-enfaced from London. The Bank hope that future Rupee Loans may issue on a scale and under conditions likely to maintain in the Indian money markets a supply of paper sufficient to meet investment demands, and that prices will be such as to induce Native investors to increase their holdings rather than tempt them to reduce them for the sake of a casual profit.

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Statement showing the proportion of the Registered Debt of India as held by Europeans and Natives respectively.

| | *Europeans. | Natives. | Total. |
|---|---|---|---|
| | Rs. | Rs. | Rs. |
| December 1893 | 74,63,75,463 | 24,62,55,993 | 99,26,32,456 |
| June 1894 | 70,86,48,389 | 28,17,22,896 | 99,03,71,255 |
| December 1895 | 74,25,96,645 | 23,31,37,053 | 97,57,33,698 |
| ,, 1896 | 79,90,04,884 | 23,44,60,747 | 1,03,34,65,631 |
| ,, 1897 | 53,63,44,086 | 42,07,78,746 | 1,05,71,22,831 |
| ,, 1898 | 64,89,74,628 | 41,87,99,343 | 1,06,77,73,971 |
| ,, 1899 | 65,99,40,921 | 40,69,65,605 | 1,06,69,06,524 |
| ,, 1900 | 65,27,00,394 | 41,46,08,330 | 1,06,73,08,724 |
| ,, 1901 | 71,92,27,451 | 39,72,13,696 | 1,10,66,41,147 |
| ,, 1902 | 69,15,44,758 | 42,96,91,716 | 1,12,12,36,474 |
| ,, 1903 | 68,77,55,951 | 45,33,73,923 | 1,14,11,29,874 |

* This sum includes the Paper Currency Reserve and amount of enfaced Notes held in London.

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## Changes in the Loans.

| | Per Cent. | Rs. | |
|---|---|---|---|
| 1893 | 3½ | 3,50,00,000 | 1893–94 issued. |
| ,, | 4½ | 7,34,82,467 | Notified for discharge. |
| 1894 | 4 | — | Converted into 3½ per cent. |
| 1895 | 3 | 4,00,000 | 1895–97 issued. |
| ,, | 3 | 2,04,85,500 | Do. as per C.G.'s No. 428D, 19th December 1896. |
| ,, | 3½ | 5,00,24,800 | 1893–94 and 1853–54, converted into 3 per cent. and notified for discharge. |
| 1897 | 3½ | 3,00,00,000 | 1854–55 issued. |
| 1898 | 3½ | 1,20,00,000 | Ditto. |
| 1899 | portion | 2,23,000 | Notified for discharge. |
| 1900 | 3½ | 2,00,00,000 | 1900–01 issued. |
| 1901 | 3½ | 1,00,00,000 | Ditto. |
| 1902 | 3½ | 1,50,00,000 | Ditto. |
| 1903 | 3½ | 2,00,00,000 | Loan increased. |

## Particulars of Rupee Debt.

| —— | 4½ per cent. | 4 per cent. | 3½ per cent. | 3 per cent. | *Sundries. | Total Rupee Debt. | New Loans raised in Crores. | Outstanding balances of enfaced Rupee Paper. |
|---|---|---|---|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | | Rs. |
| 31st March 1893 - | 1,38,81,417 | 25,28,63,259 | 5,21,800 | — | 9,83,953 | 96,76,50,929 | 3·5 | 25,93,38,613 |
| „ 1894 - | 26,83,940 | 45,24,12,022 | 3,55,12,800 | — | 9,86,886 | 99,15,35,558 | — | 24,15,55,613 |
| „ 1895 - | 8,92,150 | 10,52,00,952 | 87,20,33,200 | — | 9,61,386 | 97,95,88,688 | — | 23,62,61,907 |
| „ 1896 - | 6,21,850 | 58,66,823 | 96,46,23,500 | — | 9,54,386 | 97,51,16,364 | 4·0 | 25,35,07,627 |
| „ 1897 - | 5,14,950 | 52,42,123 | 91,32,42,600 | 10,95,68,200 | 9,52,386 | 1,02,95,00,164 | 3·0 | 24,03,66,627 |
| „ 1898 - | 4,27,450 | 40,81,695 | 24,13,70,100 | 10,97,25,500 | 9,52,386 | 1,05,65,53,131 | 1·2 | 21,30,87,027 |
| „ 1899 - | 3,88,750 | 35,78,923 | 95,19,70,900 | 11,07,05,100 | 7,75,766 | 1,06,74,15,451 | — | 21,44,12,334 |
| „ 1900 - | 1,50,130 | 34,39,410 | 95,18,67,600 | 11,07,05,700 | 7,62,466 | 1,06,68,25,386 | 3·0 | 20,81,88,234 |
| „ 1901 - | 1,16,050 | 31,34,210 | 98,18,14,700 | 11,07,07,300 | 7,62,466 | 1,09,65,95,124 | 1·0 | 22,18,12,134 |
| „ 1902 - | 50,550 | 31,03,033 | 99,17,44,100 | 11,07,07,200 | 7,62,466 | 1,10,63,27,349 | 1·5 | 20,36,22,034 |
| „ 1903 - | 77,850 | 29,35,560 | 1,00,67,09,500 | 11,07,08,300 | 7,91,066 | 1,12,12,22,276 | 2·0 | 18,63,35,034 |
| „ 1904 - | 70,350 | 28,74,060 | 1,02,66,78,400 | 11,07,10,300 | 7,91,066 | 1,14,11,23,776 | — | 17,13,92,234 |

* Treasury Notes.
Treasury Notes Perpetual Bonds and B. D. in Madras.
Ditto 6 per cent.
Ditto 3½ per cent.
Treasury Bills.

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## Enclosure No. 7.

### Dated Madras, 6th June 1904.

From the Hon. Sir George Arbuthnot, Chairman, Madras Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter of the 29th April, asking for an expression of the views of the Chamber with reference to a proposal which is under the consideration of the Governor-General in Council to take power by legislation to increase the invested portion of the Paper Currency Reserve from Rs. 10 to Rs. 12 crores.

I have the honour to state that your letter has received the careful consideration of the Chamber, which is of opinion that it would be both safe and expedient in the interests of the tax-payers generally to make the proposed increase in the invested portion of the Paper Currency Reserve.

With regard to the question as to whether the investment should be in rupee or sterling securities, this Chamber is decidedly of opinion that it should be in the rupee securities of the Government of India. To make the investment in the sterling securities of the British Government would seem to imply a doubt on the part of the Government of India of their own credit, and to make it in Indian Government sterling securities would be taken to imply an equally objectionable doubt of the permanency of their own exchange policy and the stability of Indian exchange. It will, this Chamber is of opinion, be in the interests alike of the Indian tax-payer, the Indian investor in rupee paper, and the Government that the investments should be made in the rupee securities of the Government of India.

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## Enclosure No. 8.

### No. 189, dated Karachi, the 8th June 1904.

From F. S. Couper, Esq., Secretary, Karachi Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 2632A., dated the 29th April last, requesting an expression of opinion on a proposal under consideration of the Governor-General in Council, to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees.

I am directed by my Committee to express their approval of the proposed legislation by Government, as, in their opinion, the position as set forth in the Tables you attach, fully justifies such action.

My Committee are also completely in accord with the suggestions (*a*) that the investment should be made from the *Gold* in the Reserve; and (*b*) in sterling securities rather than in rupee securities.

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Enclosure No. 9.

No. 931, dated Calcutta, the 9th June 1904.

From W. Parsons, Esq., Secretary, Bengal Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department.

I am directed by the Committee of the Bengal Chamber of Commerce to acknowledge receipt of your letter No. 2632A., dated Simla, 29th April 1904, asking for an expression of opinion on the proposal now under the consideration of the Governor-General in Council to take power by legislation to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees.

2. In paragraph 7 of your letter you ask for a further opinion on a proposal, also before the Government of India, to make the investment not in rupee securities but in sterling securities either of the British Government or of the Government of India.

3. The Committee have given their very close and careful attention to both the points raised in your letter, and I am instructed to say with reference to the first that they are unanimously of opinion that the invested portion of the Paper Currency Reserve can be safely increased from ten to twelve crores of rupees.

4. As to the second point on which an opinion is asked, viz., the advisability of making the new investment in sterling securities, the Committee are in favour of this proposal, notwithstanding that it involves a departure from long established precedent. Although the Committee would not suggest any alteration of this kind being made in connection with the ten crores already invested, they consider it would be advisable to invest the additional two crores now under consideration, in sterling securities either of the British Government or the Government of India. It appears to them that in case of need such securities would be more readily and quickly realised in London, where they would no doubt be held, than would be possible with rupee securities either in India or in England, and occasions might arise for the speedy purchase of silver, for which this investment would be available on the spot, and the time required for the transmission of gold from India would be saved.

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Enclosure No. 10.

No. 192, dated Bombay, 9th June 1904.

From J. Begbie, Esq., Secretary and Treasurer, Bank of Bombay, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 2632A, dated 29th April last, in which you request that the Directors of this Bank will favour the Government of India with an expression of their opinion on a proposal which is under the consideration of the Governor-General in Council to take power by legislation to increase the invested portion of the Paper Currency Reserve from ten to twelve crores of rupees.

In reply I am instructed to address you as follows :—

2. You append to your letter statements for the purpose of showing that an increase would be justified in view of the enlarged net circulation of notes in the hands of the public, and also of the fact that the invested portion of the Reserve would then bear nearly the same percentages to the average minimum and net circulation as it did when the last investment was made. The statements include the figures for the years 1902-03 and 1903-04, which show a very exceptional inflation, and my Directors are not disposed to agree with the opinion expressed in your letter that this recent and very rapid increase may be taken as an index of a growth of the monetary transactions of the country and consequently of the minimum amount of notes which will be necessary for such transactions. So far as the figures for the past two years are concerned, my Directors think it is unsafe to place much reliance on them as indicating a permanent larger use of notes as currency. They consider that a large portion of the recent increased holding of both notes and rupees by the public is likely to be only temporary.. The increased holding probably represents to a large extent unusual profits on agricultural operations and trading; money, in fact, received in exchange for produce, &c., sold, and my Directors think it is very desirable to wait and see whether it will remain in circulation as currency in the hands of the public, before acting on the conclusion that the minimum note circulation has been permanently raised. And although, apart from the statistics for those two years, the increased minimum net circulation would appear to justify the proposed investment, my Directors are of opinion that the question under consideration should not be decided on the statistical position alone.

3. In paragraph 6 of your letter you state that in 1896 some doubts were expressed as to the effect on the stability of exchange of a measure which would result in increasing the rupee circulation by two crores, and you add that at the present time the stock of gold in the currency reserve is so high that the Government of India could view with equanimity such an addition to the silver currency. My Directors regret they are unable to share the confidence thus expressed by Government. In their opinion an addition, by itself, of two crores to the silver currency would probably have no ill effect on the stability of exchange, but there is considerable risk to that stability in large frequent additions to the token circulation, and my Directors think that the present proposal should be considered in the light of the policy pursued by Government in connection with all extensions of the currency. That policy has led during recent years to a very large increase of the token coinage, and to the adoption of permanent measures to enable a rapid addition to be made to the stock of silver coin without the risk of delay in importing silver bullion for coinage (as announced in the last Budget Statement), and the leading feature of the policy seems to be that all increases of the currency must be in the form of token coins. This system differs from that followed in the more important gold standard countries, the general practice being to strictly limit the quantity of subsidiary or token coins. The result has been that far more rupees have been issued than are really wanted for actual circulation. Supplies of money have for a considerable time past been in large excess of needs. This fact was clearly displayed during the past six months by the comparatively low rates of interest and the difficulty experienced in obtaining full employment for money, while, at the same time, the trade of the country was very large and of high value. This seems to show that rupees have been over abundant, seeing that the great bulk of money in use in India consists of rupees, and that it cannot be really necessary that most of the money in use should be in the form of subsidiary coins. With the gold standard the aim should be to restrict the quantity of such coins to as low a minimum as possible. My Directors regret they cannot regard this result of the policy of Government with approval. It seems to them to be contrary to sound currency principles to continue to expand the circulation, practically without limit, only in the form of token coins. Government no doubt, have endeavoured to meet this objection, and at the same time to protect themselves, by the establishment of a Gold Reserve Fund into which the profits of coining new rupees are

paid, and the amount accumulated has been invested in sterling securities. The Fund is intended as a guarantee for the conversion into gold, if required, of the rupee token coinage. This expedient is an unusual one, and my Directors are unable to regard it with favour, especially in view of the very large quantities of rupees that have been issued and of the apparent readiness of Government to continue further coinage notwithstanding that the rupee currency is already superabundant. It seems to my Directors that the system must lead to excessive issues of rupees, and that rupees in excess of requirements will have to be withdrawn from circulation sooner or later. Such an operation as the reconversion of rupees into gold as contemplated would almost certainly be carried out under disadvantageous circumstances and a considerable loss, and the credit of the Government gold currency policy might also be endangered. The contingency of having to reconvert rupees into gold is one which should be avoided as far as possible, and, in the opinion of my Directors, it would be far better to inaugurate at once a gold currency and so limit the coinage of rupees, rather than take the risk of having to melt rupees into bullion for sale at almost certain, and probably heavy, loss, and the further risk of the Indian currency being impaired. A gold currency is the natural and usual concomitant of a gold standard, and there appears to be no good reason why the Indian gold standard should not be associated with a gold currency, which as in other countries might be extended without limitation and without risk, and which would be automatic and self-regulating. Sovereigns no doubt are legal tender and have come into the country in large quantities, but they do not circulate to any large extent as currency. My Directors believe sovereigns are of unsuitable value for the wants of the public, but they are convinced that gold coins of smaller value issued by the Indian Mints would be extensively welcome. Recent imports of sovereigns have come in in exchange for Indian produce, and my Directors are unable to approve of the system which converts such imports into rupees whether money in that medium is required or not, and practically compels the country to be content with a non-automatic currency consisting largely of overvalued silver coins.

4. In the case under reference Government could view with equanimity an addition of two crores to the silver currency because of the stock of gold held in the Currency Reserve. That stock of gold is no doubt a most important factor in the situation. But it has to be remembered that that gold is required as a guarantee for the maintenance of the gold standard, and that in other large gold standard countries where token coins in circulation are in large quantity much larger stocks of gold are held (in addition to gold coins in the circulation), than the amount now held in India, and those countries also refrain from adding to the strain on the standard by increasing the quantity of token coins in use. In India the additions to the circulation have increased the burden thrown on the stock of gold of maintaining the standard, and, although no adverse effect on the stability of exchange has so far manifested itself from the late additions, my Directors are of opinion that this result has arisen not so much from the possession of the gold, on which Government place so much reliance, as from the favourable trade balances. With a continuance of favourable balances it is probable no bad effect will appear because of the swollen state of the rupee currency. But there can be no certainty that those balances will always be favourable, and my Directors consider it would be wise to await developments before acting on the conclusion that the gold held is strong enough to maintain stability of exchange, especially as the inflation of the circulation is an event of comparatively recent occurrence. The adverse action of an inflated token currency need not be immediate. It may exert its force at any time. Besides maintaining the standard, the stock of gold in the Currency Department is practically the only store available in the event of gold being wanted to adjust the balance of trade should it unfortunately turn against India, and calls on it for that purpose should be kept in view however remote they may appear at the present time.

5. My Directors' view of the present state of the rupee circulation being as above indicated, they regret they are unable to approve of the release of

two crores of rupees from the Currency Reserve which would be the result of the proposed investment if made from the silver reserve.

6. With respect to the alternative of investing from the gold reserve, I have to say that, while my Directors would, under existing circumstances, prefer a gold investment rather than one from the rupee reserve, they are of opinion that in this case also no action should be taken for the present. They consider that this is not the time to invest either from the silver or the gold reserve, and that it would be better to wait and watch the results which may ensue from the large additions to the rupee circulation. A reduction in the gold metal reserve by two crores might perhaps be regarded without much concern, seeing that the balance of trade is very favourable and that gold is still being imported. My Directors think, however, that the position would be far stronger by possession of the metal itself rather than of gold securities. The metal is the best and most satisfactory basis for the currency. The Gold Reserve Fund has, unfortunately, in the opinion of my Directors, been already invested. They would much prefer to see the gold itself retained in the country. And, in any case, the money can be invested at any time if further experience shows that it can be spared. A comparatively small loss in the way of interest is the only disadvantage.

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Despatch from the Secretary of State to Government of India, No. 141 (Financial), dated 14th October 1904.

My Lord,

I have considered in Council Your Excellency's letter in the Finance and Commerce Department, No. 295, dated 18th August 1904, submitting for my approval proposals that (1) the invested portion of the Paper Currency Reserve may be increased from 10 to 12 crores of rupees, and (2) that the additional amount thus to be invested may be held in London in gold securities of the Government of India or of the United Kingdom.

2. I agree with your Government that the expansion of the note circulation which has taken place since 1896, when the present limit was fixed to the invested portion of the Paper Currency Reserve, has been sufficient to warrant the raising of that limit from 10 to 12 crores; and it also appears to me that the policy of investing in gold securities the sum which you propose to add to the invested portion of the Reserve is a sound one.

3. I therefore authorise you to undertake the legislation necessary to give effect to your proposals.

I have, &c.

(Signed) ST. JOHN BRODRICK.

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Letter from Government of India No. 6, dated 12th January 1911, to the Secretary of State for India.

My Lord,

We have the honour to submit, for your favourable consideration, a proposal to amend Section 22 of the Indian Paper Currency Act, 1910 (II. of 1910), so as to raise from one hundred and twenty to one hundred and forty millions of rupees, the amount of the Paper Currency Reserve which may be invested in securities and to raise from twenty to forty millions of rupees, the maximum which can be invested otherwise than in securities of the Government of India.

2. The maximum limit of the invested reserve was raised in 1905 from 10 to 12 crores. Since that time the net circulation of currency notes in India (excluding the amounts held in the Reserve Treasuries of Government and at the head offices of Presidency Banks), which is taken as an index to the permanent circulation among the public, has largely increased. The statements appended to this despatch give the statistics of gross and net circulation for the six years ending 1909–10. The average and minimum net circulation in the past three years compare as follows with the corresponding figures in the three years preceding the last increase of the invested reserve in 1905 (*lakhs of Rupees*) :—

| | Three years ending 1904–05. | | | Three years ending 1909–10. | |
|---|---|---|---|---|---|
| | Average. | Minimum. | | Average. | Minimum. |
| 1902–03 - | 25,74 | 23,93 | 1907–08 - | 36,47 | 34,91 |
| 1903–04 - | 28,70 | 27,44 | 1908–09 - | 34,84 | 32,88 |
| 1904–05 - | 30,69 | 29,63 | 1909–10 - | 38,88 | 36,07 |
| Average - | 28,38 | 27,00 | Average - | 36,73 | 34,62 |

3. It will be seen that, while the sum of 12 crores to which the investment was raised in 1905 amounted to 42·28 per cent. of the previous three years' average circulation and to 44·44 per cent. of the average minimum circulation, a further increase to 14 crores now would put the investment at 38·11 per cent. of the average circulation of 1907–10 and at 40·44 per cent. of the average minimum circulation. The latter triennium, as your Lordship is aware, included one year (1908–09) which was marked by serious trade depression. We regard it as extremely unlikely that the minimum circulation will ever fall, at least for any prolonged period, below 30 crores; and if against this we hold 16 crores in actual coin, the danger of inconvertibility will be very small. We are confident therefore that the proposed increase to the investment is within the margin of safety.

4. The proposal which we now submit first came under consideration in 1908, when we consulted the Presidency Banks and the Chambers of Commerce on the subject. We enclose a copy of their replies. It will be seen that, while they were unanimously of opinion that the investment could safely be increased to the extent proposed, there was a considerable feeling that it would be preferable to postpone the investment in favour of taking steps to promote the circulation of small value notes. We were then on the point of recommending an extension of the system of universal currency notes, and it was apprehended that the experiment would require the retention of a somewhat larger coin reserve than might otherwise be necessary. Another consideration which affected the proposal in 1908 was the weakness of exchange, which would have rendered inopportune any action tending towards further ease in the money market by the release of a large quantity of rupees from the Currency Reserve. We, therefore, came to the conclusion that it was inadvisable to proceed with the proposal at the time.

5. Since then the position has altered. The weakness of exchange has passed, while the circulation of currency notes during 1909–10 was the highest on record. Our currency notes up to Rs. 50 have been "universalized," and we have had no experience of the inconveniences which it was feared might result. It is true that prudence may require us to hold a stronger coin reserve at a number of distant points than was necessary under the old rigid "circle" system. But, on the other hand, the greater convertibility tends to raise the aggregate circulation and to reduce the violent fluctuations at different times of the year. In our opinion the extension of the universal note system need no longer be considered a reason for deferring the increase in our investment if such a measure is otherwise desirable. An objection sometimes urged against increasing the investment is that, in order to supplement the Gold Standard Reserve, it is desirable to keep as large a quantity of gold in the Paper Currency Reserve as possible, and that every investment, by reducing the capacity of the Reserve for holding gold, reduces at the same time our resources for the maintenance of exchange in unfavourable seasons. This argument might be pushed so far as to preclude

the possibility of any investment at all; and it is deprived of much of its force if the investment is made in securities which are readily convertible into gold.

6. This leads us to consider the form which the investment should take. When the invested reserve was last increased by two crores in 1905, the additional investment was made in sterling securities in England. The three Presidency Banks and the Chambers of Commerce, Bombay, Madras and Karachi, now advise investment in rupee paper; while the Rangoon, Bengal, and Upper India Chambers of Commerce are in favour of sterling securities. In our opinion the arguments in favour of the investment in sterling securities set forth in paragraphs 7, 8, and 9 of Lord Ampthill's despatch No. 295, dated the 18th August 1904, still hold good. We already have a sufficiently large holding in rupee paper, and there is an advantage in keeping a substantial part of the Reserve in a form of security which will not necessarily be influenced by the causes which might shake public confidence in our currency notes.

7. We therefore solicit your Lordship's permission (by telegram, if possible) to introduce a Bill during the present Calcutta session to give effect to the proposals stated in the first paragraph of this despatch, on the understanding that, if the Bill becomes law, the additional investment will be made, under your orders, in gold securities.

We have the honour to be,
My Lord,
Your Lordship's most obedient, humble Servants,

(Signed) HARDINGE OF PENSHURST.
O'M. CREAGH.
G. FLEETWOOD WILSON.
J. L. JENKINS.
R. W. CARLYLE.
S. H. BUTLER.
S. A. IMAM.

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Government of India (Finance Department).

Enclosures of Despatch No. 6 of 1911.

Enclosure No. 1.

No. I.—Statement showing the circulation of Paper Currency for all India.
(*In lakhs of Rupees.*)

| Month. | 1904-05. | 1905-06. | 1906-07. | 1907-08. | 1908-09. | 1909-10. |
|---|---|---|---|---|---|---|
| April | 36,11 | 39,78 | 43,76 | 46,22 | 46,26 | 43,65 |
| May | 37,26 | 40,19 | 42,89 | 46,07 | 44,81 | 46,77 |
| June | 40,65 | 41,36 | 45,56 | 48,05 | 45,15 | 49,29 |
| July | 42,52 | 41,58 | 47,30 | 50,32 | 48,10 | 51,53 |
| August | 41,35 | 43,79 | 45,70 | 51,77 | 44,61 | 51,74 |
| September | 39,96 | 42,73 | 44,40 | 52,74 | 43,84 | 50,82 |
| October | 39,45 | 41,58 | 45,22 | 50,65 | 44,25 | 50,50 |
| November | 39,80 | 39,63 | 44,13 | 47,43 | 43,55 | 46,53 |
| December | 38,79 | 39,77 | 45,61 | 43,27 | 42,07 | 48,25 |
| January | 37,62 | 40,49 | 44,65 | 41,82 | 42,21 | 51,84 |
| February | 37,73 | 42,63 | 45,49 | 42,66 | 43,86 | 50,57 |
| March | 39,17 | 44,66 | 46,95 | 46,88 | 45,49 | 54,41 |
| Average | 39,20 | 41,52 | 45,14 | 47,32 | 44,52 | 49,66 |
| Maximum | 42,52 | 44,66 | 47,30 | 52,74 | 48,10 | 54,41 |
| Minimum | 36,11 | 39,63 | 42,89 | 41,82 | 42,07 | 43,65 |

Enclosure No. 2.

No. II.—Statement showing the circulation of Paper Currency, excluding amounts held by the Government Reserve Treasuries and by the Presidency Banks at their Head Offices. (*In lakhs of Rupees.*)

| Month. | 1904-05. | 1905-06. | 1906-07. | 1907-08. | 1908-09. | 1909-10. |
|---|---|---|---|---|---|---|
| April | 29,64 | 31,06 | 34,74 | 38,14 | 34,58 | 37,30 |
| May | 29,63 | 31,92 | 33,08 | 37,44 | 33,10 | 36,09 |
| June | 30,61 | 31,96 | 33,12 | 37,15 | 32,88 | 36,07 |
| July | 31,21 | 32,70 | 34,19 | 36,64 | 33,46 | 36,30 |
| August | 30,84 | 31,09 | 34,13 | 36,14 | 33,40 | 37,06 |
| September | 30,47 | 32,13 | 35,21 | 37,28 | 34,62 | 38,69 |
| October | 30,09 | 33,24 | 36,30 | 36,94 | 35,77 | 38,80 |
| November | 30,13 | 32,68 | 37,12 | 36,49 | 35,96 | 38,47 |
| December | 31,82 | 33,36 | 38,12 | 35,69 | 35,79 | 40,05 |
| January | 31,38 | 33,84 | 37,91 | 35,17 | 35,44 | 42,50 |
| February | 31,39 | 34,63 | 38,28 | 35,69 | 36,24 | 42,66 |
| March | 31,03 | 35,35 | 38,89 | 34,91 | 36,85 | 42,57 |
| Average | 30,69. | 32,83 | 35,92 | 36,47 | 34,84 | 38,88 |
| Maximum | 31,82 | 35,35 | 38,89 | 38,14 | 36,85 | 42,66 |
| Minimum | 29,63 | 31,06 | 33,08 | 34,91 | 32,88 | 36,07 |

Enclosure No. 3.

Dated 26th November 1908.

From Mr. L. G. Dunbar, Officiating Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance Department.

I have the honour to acknowledge receipt of your letter, No. 6404A, dated the 11th instant, asking for an expression of the opinion of the Directors of the Bank of Bengal whether it is expedient that the Government of India should take power to increase the invested portion of the Paper Currency Reserve from twelve crores to fourteen crores of rupees.

2. In reply, I am instructed to say that, as the stock of coined rupees appears to be ample to meet all probable requirements, my Directors are of opinion that the proposed increase in the Currency investment may be undertaken with safety and to the advantage of the State.

3. As regards the form of the new investment, my Directors consider the sum of Rs. 2 crores, at present invested in sterling sucurities, sufficient for the purpose for which it is intended, and that the further investment, now under consideration, should be in the rupee paper of the Government of India.

Enclosure No. 4.

No. 338, dated 4th December 1908.

From Mr. J. Begbie, Secretary and Treasurer, Bank of Bombay, to the Secretary to the Government of India, Finance Department.

I have the honour to acknowledge receipt of your letter No. 6404A, dated 11th ultimo, in which you request that the Directors of the Bank will favour the Government of India with an expression of their opinion whether it is expedient that the Government of India should take power by legislation to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores.

2. In reply the Directors instruct me to say that the statistics of the net circulation of notes which accompanied your letter show a large and rapid decline during the twelve months ending 31st March last, and that it would appear to be advisable to see whether this decline continued during subsequent months, and if so, how far the decline was carried, before concluding that the average minimum circulation had permanently reached the level shown as the average for the three years ending March last. Subject to this note of caution the Directors consider that the statistics warrant the addition to the invested portion of the reserve now suggested.

3. With regard to the question whether the investment should be made in rupee or sterling securities, the Directors are of opinion that in the existing position of sterling exchange the investment should be made in securities of the Government of India.

4. While agreeing that the statistical position shown in your letter would justify the further investment of the Reserve now proposed, the Directors venture to suggest for the consideration of the Government of India the desirability of postponing the investment and taking instead further steps in the direction of promoting an extended use of notes of small value as currency.

5. They have specially in view at present the desirability of encouraging the extended use of Rs. 10 notes. It is through notes of low value that the greatest employment for notes as currency can be found amongst the population, and it is also through such notes that the greatest stability to the permanent circulation can be obtained. It appears to the Directors that Government should endeavour to promote their circulation by relaxing as many of the restrictions now placed upon them as may be found possible.

6. In every Currency Circle Rs. 10 notes have proved to be the most popular of all the denominations issued, showing that the value of Rs. 10 is most suitable for the requirements of the population, and this popularity has been attained without any special inducement being held out to encourage their employment. But while the notes are in greater favour throughout India than any other note, it can be said only of the notes of the Calcutta and Bombay Circles that they have thoroughly established themselves as currency, because it is only in these two centres that their permanent circulation is of large dimensions.

7. It would not be feasible to make all Rs. 10 notes legal tender and encashable throughout India, but where they have come into continuous use in large quantities as in Calcutta and Bombay, it should be possible to encourage still further development.

8. The suggestion the Directors desire to make is that Rs. 10 notes of the Calcutta and Bombay Circles should be made legal tender and encashable at the pleasure of holders in either city. Were this done the greater usefulness of the notes as a circulating medium would naturally lead to a permanent increase in their circulation.

9. But if the notes are made legal tender they should also be encashable at will. With regard to this point I have to say that the Directors believe the variation in the total circulation of Rs. 10 notes in Calcutta and Bombay throughout the year is very small and that a comparatively minute cash reserve is sufficient to meet all demands for payment in coin. Also, it may safely be assumed that very few of the existing Rs. 10 notes outstanding at Calcutta would be presented for encashment in Bombay and *vice versâ*, because they are in use in the locality of the circle of issue. For all practical purposes it would only be from any additional notes issued, that a new liability would be created on the cash reserves in each city, against which it would be advisable, to begin with, for the Currency Office at each place to be prepared for demands for encashment of notes of the other circle. The

Directors understand however that the chief flow of money from Bombay to Calcutta takes place from about August until January and that the current is reversed after January. The additional liability that would be thrown on each Currency Office would therefore be confined to well defined seasons of the year. The Directors further understand that Government already provide for the cash requirements of Calcutta by remittance of coin in anticipation of the autumn demands and similarly provide for Bombay's coin requirements when the demand arises here. But the total of such coin requirements at each place would not be increased by reason of Rs. 10 notes being made encashable in either city. The total amount of remittances from Bombay to Calcutta and *vice versâ* would not thereby be enhanced. A larger part of the money transferred might perhaps be made in the form of Rs. 10 notes than is now the case, but the total demands for coin arising out of transfers of money from one city to the other would remain unaffected. It would however be safer, to start with, to hold rather larger cash balances until experience was acquired of the working of the scheme. On the other hand, in view of the popularity of the notes at each centre the probability is that they would gradually cease to be presented for cash and be increasingly absorbed as currency in circulation. The knowledge that they were legal tender and also exchangeable for coin at the pleasure of the holder in either city would bring about the usual result of making the notes still more popular and making them do duty where coin is now required.

10. The Directors consider it would be sound policy to sacrifice the income from an immediate investment to secure the use of notes of small value as currency to a greater extent than is now the case. When that is secured the amount of the Reserve that can safely be invested will be so much the greater.

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Enclosure No. 5.

No. 1306, dated 9th December 1908.

From the Chairman, Chamber of Commerce, Bombay, to the Secretary to the Government of India, Finance Department.

I am directed to acknowledge receipt of your Circular letter, No. 6404A, dated Simla, 11th November 1908, requesting the Chamber to favour the Government of India with an expression of its opinion as to whether the Supreme Government should take power by legislation to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores.

2. In reply I am to state that in the opinion of the Committee this forms part of a far larger question and my Committee beg to lay the following remarks before you for the consideration of the Government of India.

3. As far back as 1868 the question of making notes of all Circles legal tender throughout India was brought forward, but at that time this Chamber, when asked its opinion by Bombay Government, advocated a Presidency Note in lieu of a universal note for all India, its reasons being that while the latter would be most acceptable, the time had not then come for adopting it.

4. In 1900 this Chamber, in response to questions asked by the Government of India, stated *inter alia* that if Government could undertake to cash the notes of any Circle at Calcutta, Madras, or Bombay, it would afford considerable facility to trade and would tend to popularise the use of notes.

5. This matter has now again been brought to the notice of my Committee and it has been pointed out that the fact of one Circle's notes not being legal tender in another Circle constitutes considerable hardship to trade. In Bombay, for instance, many traders come down to make purchases and bring for that purpose notes of another Circle. The result of this is that native

dealers present these notes to European firms, but, as they cannot be cashed in Bombay except at a disconnt, the firms are unable to accept them, and this constitutes constant friction between themselves and their dealers. My Committee are therefore of opinion that if notes of all Circles could be made legal tender at the three Presidency towns, Calcutta, Madras, and Bombay, it would considerably facilitate trade between the Presidencies, and take away the difficulty referred to above. They quite realise that by so doing Government would probably lose a certain profit which they now make by transfers from one Centre to another, as, provided the notes were made legal tender for the three Presidency towns, the actual transfer of bullion which might be required to meet trade requirements would be made at the expense of Government and not at that of the merchants. But they consider that Government would be fully repaid indirectly by the increase in trade consequent on such facilities being granted and the increased confidence in and consequent use of currency notes instead of bullion.

6. My Committee understand that at present considerable balances are retained in up-country treasuries, which balances might safely be reduced and increased amounts retained in the three Presidency Towns, which would probably be sufficient to meet the increased demands which might be made upon them if my Committee's proposal regarding all notes being made legal tender in the said chief towns should be carried into effect.

7. It will be understood therefore that, holding these views, my Committee are not in favour of an increase in the invested portion of the Paper Currency Reserve, but would prefer to see increased facilities given to the public by making all notes legal tender in the three Presidency Towns. If this is done they consider it will be inadvisable to reduce the available balances by increasing the investment as suggested. Should, however, Government be unable to see their way to adopt the above suggestion, I am directed to state that my Committee agree that the invested portion of the Paper Currency Reserve might safely be increased as suggested, and as regards the nature of the investment to be selected they are of opinion that it is not desirable to make further investments in sterling securities but to invest the same in Rupee 3½ per cent. Paper.

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Enclosure No. 6.

Dated 8th December 1908.

From the Chairman, Burma Chamber of Commerce, Rangoon, to the Secretary to the Government of India, Finance Department.

I have the honour to acknowledge receipt of your letter, No. 6404A, dated 11th November 1908, regarding the expediency of the Government of India taking the power by legislation to increase the invested portion of the Paper Currency from twelve to fourteen crores.

2. I have the honour to inform you that while my Committee are of the opinion that not more than one-third of the reserve held against the currency note circulation should be invested in Government securities they do not see much objection to the small increase in the percentage which it is proposed to make, but hope it will not be further augmented in the future.

3. If the proposed increase is determined upon, my Committee recommend that the further investment should be made in British Government securities, they being more readily realizable, in case of need, for purchases of silver.

Enclosure No. 7.

No. G. P. L. 131, dated 15th December 1908.

From the Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance Department.

I have the honour to acknowledge receipt of your letter, No. 6404 A., dated the 11th November, requesting my Directors to express their opinion as to whether it is expedient that the Government of India should take power to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores, and in reply I am directed to say that my Directors are of opinion that, in view of the large increase in the circulation of currency notes, the proposed increase in the invested portion of the Reserve may be made with safety.

2. I am further desired to say that my Directors consider that, in order to avoid frequent amendments of the Indian Paper Currency Act, Government might take powers by legislation to invest a fixed proportion of the value of notes in circulation. In his letter No. 6468, dated 23rd December 1889, Mr. Finlay stated that in 1860 it was proposed to invest two-thirds, but that it was decided that the safer and sounder principle was to prescribe a fixed sum as the limit. What the reasons were for arriving at this decision are not stated, and though the investment of two-thirds of the Reserve might involve considerable risk, my Directors submit that, under present conditions, 35 per cent. might safely be invested. They think also that, should some such proportion be decided upon, it would be necessary, while leaving the permissive power to sell securities untouched, to add a sub-clause to Section 22 of the Act making it obligatory to sell should at any time the metallic reserve fall below a certain percentage of the notes in circulation—say 50 per cent.

3. In your letter under reply my Directors are also asked whether they have any suggestions to make, if a further investment is determined upon, as to what form it should take, and in this connection I am desired to say, that unless the operation be postponed for a very considerable time, it would not appear to be possible to invest in securities of the United Kingdom without interfering with the building up of the Gold Standard Reserve Fund to its former level, and that therefore the present investment may be made in Government of India rupee paper.

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Enclosure No. 8.

No. 885, dated 16th December 1908.

From the Secretary, Chamber of Commerce, Karachi, to the Secretary to the Government of India, Finance Department.

I beg to acknowledge your letter No. 6404A., of 11th November, regarding the proposal to increase the Paper Currency Reserve from twelve to fourteen crores of rupees. I am directed by the Committee of this Chamber to inform you that they are of opinion that the Reserve might be increased as suggested providing that the same is made in securities of the Government of India.

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Enclosure No. 9.

No. 1977, dated 23rd December 1908.

From the Secretary, Bengal Chamber of Commerce, to the Secretary to the Government of India, Finance Department.

I am directed to acknowledge the receipt of your letter, No. 6404A., dated 11th November 1908, in which you request an expression of opinion

by the Bengal Chamber of Commerce as to whether it is expedient to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores of rupees.

2. In reply I am to say that the Committee of the Chamber have attentively examined this proposal. They have read the past correspondence dealing with the increases which have been made since the limit of the invested portion of the Reserve was fixed, by the Paper Currency Act of 1861, at four crores of rupees. And they endorse the principle upon which the investments have been made, namely, that the sum invested shall be well within the amount of notes which has been found by experience to be necessary for the monetary transactions of the country. When the limit was raised in 1905, the sum of twelve crores of rupees amounted to 42·28 per cent. on the average net circulation (*i.e.*, the gross circulation less the amount held in the Government Reserve Treasuries and at the head offices of the Presidency Banks), and to 44·40 per cent. on the average minimum circulation. The Committee of the Chamber were then of opinion that this was a sufficient margin of safety, and they consequently supported the suggested increase. They similarly favour the present proposal, which if adopted will, they understand, bring the investment up to 39·92 per cent. on the average of the net circulation for the last three years, and to 42·40 per cent. on the average minimum.

Letter No. 931, dated 9th June 1904, from the Bengal Chamber of Commerce, to the Government of India, Finance and Commerce Department.

3. In reply to your enquiry as to the form which the investment should take, I am likewise to refer to the views expressed by the Chamber when the last increase was under discussion. The Committee then recommended that the investment should be made in sterling securities because such would be, they considered, more readily realised in London than rupee securities would be either in India or in England. They are still of this opinion, and they venture therefore again to suggest that sterling securities should be purchased. At the same time they are aware that the stock of gold coin and bullion in the Currency Reserve has now been so far depleted as not to exceed two* and a quarter crores of rupees in England, and about Rs. 15¾ lakhs in India. This being the case, immediate investment in sterling securities may not be feasible; but nevertheless the Committee think that the principle should not be departed from. They presume that, as on previous occasions, the intention is to invest gradually; and even though their recommendation may mean delay, they do not hesitate to put it forward. For the investment in rupee securities should not be, they think, enlarged at present beyond the ten crores of rupees at which it stands, and which is a full amount in comparison with the two crores invested in sterling securities.

* *Gazette of India*, 19th December 1908, Part II., page 1848.

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Enclosure No. 10.

Dated 30th December 1908.

From the Chairman, Chamber of Commerce, Madras, to the Secretary to the Government of India, Finance Department.

I have the honour to inform you in reply to your letter, No. 6404A, dated the 11th November 1908, that the Chamber considers that, in view of the large increase in the circulation of Currency notes since 1905, the Government of India might safely increase the invested portion of the Paper Currency Reserve from Rs. 12 to 14 crores, when a suitable opportunity presents itself, and the investment should, at present at all events, be in Government of India rupee paper.

2. In this connection the Chamber would suggest for consideration the desirability of the Government of India taking power by legislation to invest

a fixed proportion of the Currency notes in circulation in order to obviate the necessity of frequent revisions of the Paper Currency Act. The Chamber would suggest 35 per cent. as a reasonable and safe proportion to invest, provided that, while the power to sell securities is not interfered with, Section 22 of the Act is amended by the addition of a sub-clause rendering a sale obligatory if and when the metallic reserve touches a point below, say, 50 per cent. of the notes in circulation.

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Enclosure No. 11.

Dated 15th March 1909.

From A. Shakespear, Esq., Secretary, Upper India Chamber of Commerce, to the Secretary to the Government of India, Finance Department.

I am directed to acknowledge receipt of your letter No. 6404A., of the 11th November last, in which you invite the views of this Chamber upon a proposal to increase the invested portion of the Paper Currency Reserve from 12 crores to 14 crores.

2. My Committee have studied the history of the Paper Currency Reserve, and they are of opinion that the proportion held in the form of securities might with safety be increased to 14 crores, having regard to the expansion which has taken place since 1905 in the amount of Currency notes actually in use by the public.

3. Concerning the question of the form in which investments should be made, my Committee have come to the conclusion that sterling securities should be selected, on the ground that generally speaking they are more realisable than rupee securities. In making this recommendation they have not overlooked the benefit to the market value of rupee securities which might reasonably be expected to follow further investments by Government. At the same time they are conscious of the depressing effect which would result from Government being obliged in times of emergency to realise on its holdings.

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Telegram from Secretary of State to Viceroy, Finance Department, 14th February 1911.

Your Despatch dated 12th January, No. 6. Indian Paper Currency Act. I approve amendment proposed and sterling investment.

## NOTE III.

(*See paragraph 22 of Memorandum, page 242.*)

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Remittance of 5,000,000*l.* in gold from India to be held in England as part of the Paper Currency Reserve. Correspondence in 1905 between Secretary of State and Government of India.

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Despatch to Government of India, No. 41 (Financial), dated 7th April 1905.

My Lord,

In my telegram dated 9th March last, while accepting your proposal that the remittance of two crores of rupees to this country which will be required for the investment on account of the Paper Currency Reserve shall be made by means of Council drawings, I added that I should address you further on the subject of remittances of gold.

2. The question of the amount of gold that can be conveniently held in the Paper Currency Reserve in India was discussed by Your Excellency in your letters of 14th December 1899 (No. 421), and 6th September 1900 (No. 302). In the latter communication it was suggested that 7,000,000*l.* should be regarded as the maximum; and this proposal was provisionally accepted in Lord George Hamilton's Despatch No. 232, of 13th December 1900. The question was again considered by you last year in connection with your proposal to increase the amount invested on behalf of the Paper Currency Reserve; and in your letter of 18th August last, No. 295, you stated that in your opinion a stock of gold of the value of 9¼ crores (6,167,000*l.*) in the reserve would be ample and that a larger proportion is not at present required in India. You also stated that you have found by experience that at the beginning of the busy season the proportion of silver coin in the Currency Reserve should be approximately one-third of the total note circulation. As the gold held in the reserve has not fallen below 9,000,000*l.* during the last two years, and has during the whole period since March 1904 exceeded 10,000,000*l.*, I assumed, when agreeing that the invested portion of the reserve shall be increased by the substitution of sterling securities for two crores of the metallic portion, that it was your intention to remit gold to England for the purchase of the securities. In deference to the representations made in your telegram of 8th March 1905, I have agreed that the remittance shall be made by means of Council Bills. But I should be glad if you would consider whether the amount of gold held in India should not nevertheless be reduced.

3. According to the statement for the 9th of March 1905, which is the latest before me, the composition of the Currency Reserve on that date was as follows:—

| | Crores. |
|---|---|
| Securities | 10 |
| Silver coin | 9·07 |
| Silver bullion | 1·88 |
| Gold | 16·47 |
| Total | 37·42 |

The amount of silver coin was considerably below the proportion of one-third mentioned above, and when an investment of two crores is made in England, and the metallic reserve in India is reduced, the reduction will presumably be effected wholly or in part by the transfer of rupees to the ordinary treasuries.

4. In view of these figures it appears to me that there would be some advantage in remitting gold to England early in the present financial year.

Having regard to the state of your balances as described in your telegram of 8th March, it would perhaps be the more convenient course that gold so remitted should in the first instance be held as a part of the Paper Currency Reserve at the Bank of England. It could be used, if a favourable opportunity occurs in the near future, for the purchase of silver in anticipation of future requirements, or, if you are unwilling at present to anticipate requirements, it could be held at the Bank so as to be immediately available for the purchase of silver whenever the need for additional coinage may arise. It is also to be remembered that the possession of a stock of gold in England, held as a portion of the Paper Currency Reserve, but capable of being transferred to the ordinary balances of the Secretary of State in Council, against a corresponding transfer of rupees from your balances to the Currency Reserve in India, affords a method (which might in certain circumstances be very useful), of speedily replenishing the balances of the Secretary of State in Council.

5. I shall be glad to receive an expression of your views on the points discussed in this Despatch.

I have the honour to be,
My Lord,
Your Lordship's most obedient humble Servant,
(Signed) ST. JOHN BRODRICK.

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Letter from Government of India, No. 236 of 1905 (Finance Department), dated 29th June 1905, to the Right Honourable St. John Brodrick, His Majesty's Secretary of State for India.

Sir,

We have the honour to refer to your Financial Despatch No. 41, dated the 7th April 1905, on the subject of the amount of gold held in the Paper Currency Reserve. You cite various opinions which the Government of India have expressed at different times as to the amounts of gold and silver respectively which should be held in the Reserve, and you ask us to consider whether in view of the large stock of gold now held in India, a portion of it should not be remitted to England. You also suggest that it might be convenient to hold the gold so remitted in the first instance as a part of the Paper Currency Reserve at the Bank of England, and you point out certain advantages which would attach to the possession of such a stock of gold in England.

2. In the previous discussions to which you refer concerning the amount of gold that can conveniently be held in the Reserve, our views were influenced by the sudden demands which had arisen for the provision of rupees in India, and by anxiety lest the presence of a large stock of gold should hamper us in meeting those demands. Our position in this respect has been greatly strengthened by the large increase that has taken place in the note circulation in the last few years, and by the formation of a special ingot reserve of three crores of tolas of silver, as proposed in our Despatch

No. 121, dated 28th April 1904. The position will, we think, be made still more secure if you accept the proposal put forward in our Despatch No. 143 of the 27th of April last, for the annual purchase of silver in anticipation of actual requirements.

3. The object of this proposal was to secure a sufficient supply of rupees to meet all urgent demands, and so long as this object is effected we see no cause for anxiety in the accumulation of a large stock of gold. On the contrary we consider that the balance of the uninvested portion of the Reserve which is not likely to be required for circulation as money ought to be held in gold rather than in silver, and that the possession of a large stock of the yellow metal will strengthen our credit and contribute to the stability of exchange. Subject, therefore, to the provision of sufficient rupees and reserves of silver, we would allow our stock of gold to grow indefinitely with the expansion of the note circulation until such time as it may be deemed expedient to make a further addition to the invested portion of the Reserve.

4. We do not, however, consider it in any way necessary that the whole of the gold should be held in India. As pointed out in the second paragraph of your Despatch under reply we expressed the opinion in August last that a stock of $9\frac{1}{4}$ crores in the Reserve furnishes, under present circumstances, an ample maximum for Indian purposes; and one of the objects of the recent revision of the Paper Currency Act was to facilitate the transfer of the gold portion of the Reserve between India and England. We would in this connection invite attention to the remarks made by our Honourable Financial Colleague when moving on the 11th of March last that the Report of the Select Committee on the amending Bill should be taken into consideration. The Honourable Mr. Baker then observed that "so far as gold is concerned, "the coin held in London is actually one stage nearer the point at which it "becomes effective for securing the encashment of notes than when it is in "India."

5. We are accordingly disposed to welcome your suggestion that a portion of our stock of gold should be remitted to London and held as a part of the Paper Currency Reserve at the Bank of England. To the advantages which you have enumerated as attending this measure we would add that it will enable you to make purchases of silver quietly without giving the forewarning to the market which is entailed by the present system of making separate remittances for each purchase.

6. We therefore propose to send 5,000,000*l.* (five million pounds) in gold to London to be held by you as a part of the Currency Reserve. When you draw on this fund for the purpose of purchasing of silver, we would ask you to replenish it from time to time by the sale of Council Bills, at your convenience, and to inform us on each occasion of any intended operation on the fund, so that we can adapt our arrangements accordingly. In the event of the demand for Council Bills being slack at any time, you would be able after warning us to replenish the Reserve in India, to utilise your stock of currency gold for Treasury payments. If this proposal meets with your approval we should be glad to be informed as soon as possible in order that early arrangements may be made for shipping the gold.

7. With reference to the remarks in paragraph 3 of your Despatch regarding the amount of silver coin held in the Paper Currency Reserve in March last, we would point out that the standard of one-third of the total note circulation referred to in our Despatch of the 18th of August 1904 was suggested as sufficient at the opening of the busy season, and that that season was drawing to its close on the 9th of March. We take this opportunity of explaining that the standard which we suggested last year on Sir Edward Law's advice was a rough estimate only, and that we do not at present consider that we have sufficient data or experience for laying down any arithmetical criterion. We attach more importance to the proposals stated in our Despatch of the 27th of April last for anticipating requirements than to the maintenance of any fixed proportion of rupees to

the note circulation; and in any event, we do not consider that the gross circulation, which includes notes held in the Reserve Treasuries, could in any circumstances be treated as the basis of such a criterion.

We have the honour to be,
Sir,
Your most obedient, humble Servants,

(Signed) CURZON.
" KITCHENER.
" E. R. ELLES.
" A. T. ARUNDEL.
" H. E. RICHARDS.
" J. P. HEWETT.
" E. N. BAKER.
" C. L. TUPPER.

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Despatch to Government of India, No. 91 (Financial), dated 11th August 1905.

My Lord,

In your letter of the 29th of June, No. 236, you accept the suggestion made in my Despatch of 7th April, No. 41, that a portion of your stock of gold should be sent to this country to be held as a part of the Paper Currency Reserve; and you propose to make early arrangements for the shipment of 5,000,000*l*. I understand that you desire that the 1,000,000*l*. shipped on the 8th of July, as reported in your telegram of the 6th July, may be regarded as a portion of this 5,000,000*l*.

2. I approve the proposal that a further 4,000,000*l*. shall be sent. It should be consigned in instalments of not more than 1,000,000*l*., and you should inform me by telegraph when each consignment is about to be made.

3. When the gold held in England is drawn upon for the purchase of silver it is possible that in some cases the most convenient arrangement for keeping the total Currency Reserve up to the required amount will be that contemplated in Sections 17 and 19 of Act III. of 1905, viz., to treat the silver purchased as a portion of the reserve. The stock of gold in England can subsequently be replenished, as you propose, from the proceeds of Council Bills (if the state of the Home Treasury balances admits of this) so as to release rupees from the Currency Reserve in India. This procedure would obviate the necessity for making transfers in India from the Treasury to the Paper Currency Department at the time of the purchase of the silver, which I understand to be the course suggested in the sixth paragraph of your letter.

4. For the present, however, the silver that is being purchased in accordance with the requests contained in your telegram of the 5th April, your letter of the 27th April, and your telegram of the 30th June, is being paid for from the balances of the Home Treasury, so that the whole 5,000,000*l*. of gold will be held from the time of its arrival as a part of the Paper Currency Reserve.

5. I forward a copy of a letter to the Bank of England requesting them to take the necessary measures.

6. I also forward a copy of a note by the Deputy Accountant-General at this Office, from which it will be seen that it is desirable that you should announce (in the manner that appears to you most convenient) that the shipments are to be made on behalf of the Paper Currency Reserve, and not for the purpose of replenishing the balances of the Secretary of State for India in Council.

I have the honour to be,
My Lord,
Your Lordship's most obedient humble Servant,
(Signed) St. JOHN BRODRICK.

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## Enclosure No. 1.

### India Office to Bank of England.

F. 5156. India Office,
Gentlemen, 28th July 1905.

I am directed to inform you that the Government of India intend to consign to this country during the present year 4,000,000*l.* in gold in addition to the 1,000,000*l.* referred to in the correspondence ending with Mr. Nairne's letter of the 7th July.

The whole 5,000,000*l.* will for the present be treated under the arrangements contemplated in the Indian Paper Currency Act, 1905, (of which a copy is enclosed for your information) as being a part of the reserve to secure the payment of currency notes issued in India.

I am to enquire whether you will be so good as to hold the gold on behalf of the Secretary of State in Council on a separate account distinct from his cash and drawing accounts.

Portions of the amount so held may from time to time be used for the purchase of silver or for other purposes; and in this event a transfer to the Secretary of State's cash account will be required, and the necessary instructions will be given by this Office.

I have, &c.,
(Sd.) A. GODLEY.

The Governor and Company of the
Bank of England.

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## Enclosure No. 2.

### Note by the Deputy Accountant-General, India Office, dated 22nd July 1905.

I have to suggest, for consideration, that in view of the magnitude of the operation it might be desirable to take some steps to acquaint the market that the gold to be shipped will not be available for the purposes of loans from the Secretary of State's balances. The Broker has recently mentioned to me on several occasions that the publication by the newspapers of the intended shipment of gold, which is usually announced by the news agencies directly the freight is arranged in India, has a distinct effect on the rates he is able to obtain for our loans. The firms on the borrowing list occasionally quote the information to him, and either decline to renew in the expectation of cheaper money and supply themselves instead from other sources with weekly or other short term loans, or else make the news the pretext for offering a lower rate of interest than would otherwise be obtained. In this case the shipments of gold will be large, and will perhaps spread over some time. I see from to-day's "Times" that a rumour as to a further shipment is already afloat.

(Sd.) H. W. BADOCK.

# APPENDIX IX.

FIGURES of TRADE between INDIA AND CHINA (excluding Government Stores and Treasure), handed in by Mr. F. W. Newmarch, Financial Secretary to the India Office (*see* Question 1399).

| | Years. | | Exports to China. | | Total. | Imports from China. | | Total. |
|---|---|---|---|---|---|---|---|---|
| | | | Merchandise. | Treasure. | | Merchandise. | Treasure. | |
| | | | £ | £ | £ | £ | £ | £ |
| I. | 1888-89 | Hong Kong | 7,318,541 | 19,133 | 7,337,674 | 1,020,288 | 1,138,234 | 2,158,522 |
| | | Treaty Ports | 2,115,479 | 6,712 | 2,122,191 | 254,269 | 777,659 | 1,031,928 |
| | 1889-90 | Hong Kong | 7,213,223 | 19,104 | 7,232,327 | 1,338,733 | 901,041 | 2,239,774 |
| | | Treaty Ports | 2,077,923 | — | 2,077,923 | 294,268 | 609,721 | 903,989 |
| | 1890-91 | Hong Kong | 6,415,548 | 267 | 6,415,815 | 1,312,559 | 2,020,546 | 3,333,105 |
| | | Treaty Ports | 3,211,382 | 55,901 | 3,267,283 | 300,971 | 1,041,586 | 1,342,557 |
| | 1891-92 | Hong Kong | 6,136,600 | — | 6,136,600 | 1,494,401 | 1,793,142 | 3,287,543 |
| | | Treaty Ports | 3,079,066 | — | 3,079,066 | 423,691 | 670,546 | 1,094,237 |
| | 1892-93 | Hong Kong | 6,169,606 | — | 6,169,606 | 1,497,944 | 749,696 | 2,247,640 |
| | | Treaty Ports | 3,532,705 | — | 3,532,705 | 397,076 | 262,400 | 659,476 |
| | Yearly average | | 9,454,014 | 20,223 | 9,474,238 | 1,666,840 | 1,992,914 | 3,659,754 |
| II. | 1893-94 | Hong Kong | 4,352,475 | 32,128 | 4,384,603 | 1,706,175 | 638,817 | 2,344,992 |
| | | Treaty Ports | 3,067,073 | 75,634 | 3,142,707 | 655,529 | 166,134 | 821,663 |
| | 1894-95 | Hong Kong | 5,409,197 | 14,649 | 5,423,846 | 1,178,983 | 294,665 | 1,473,648 |
| | | Treaty Ports | 3,054,434 | 6,462 | 3,060,896 | 596,322 | 44,175 | 640,497 |
| | 1895-96 | Hong Kong | 5,500,239 | 72,284 | 5,572,523 | 1,144,803 | 211,970 | 1,356,773 |
| | | Treaty Ports | 3,799,287 | 6,998 | 3,806,285 | 725,768 | 46,961 | 772,729 |
| | 1896-97 | Hong Kong | 5,585,851 | 17,324 | 5,603,175 | 946,962 | 293,539 | 1,240,501 |
| | | Treaty Ports | 3,626,537 | — | 3,626,537 | 485,763 | 24,076 | 509,839 |
| | 1897-98 | Hong Kong | 5,130,209 | 335,046 | 5,465,255 | 861,235 | 600,858 | 1,462,093 |
| | | Treaty Ports | 3,021,117 | — | 3,021,117 | 266,105 | 195,592 | 461,697 |
| | Yearly average | | 8,509,284 | 112,105 | 8,621,389 | 1,713,529 | 503,357 | 2,216,886 |
| | Percentage of increase or decrease as compared with period No. I. | | *—9·993* | *+454·333* | *—9·092* | *+2·801* | *—74·743* | *—39·425* |
| III. | 1898-99 | Hong Kong | 5,385,908 | 196,098 | 5,582,006 | 767,251 | 617,399 | 1,384,650 |
| | | Treaty Ports | 3,183,352 | — | 3,183,352 | 360,675 | 378,075 | 738,750 |
| | 1899-1900 | Hong Kong | 5,391,240 | 194,153 | 5,585,393 | 734,529 | 586,320 | 1,320,849 |
| | | Treaty Ports | 4,085,693 | 10,974 | 4,096,667 | 329,729 | 27,602 | 357,331 |
| | 1900-01 | Hong Kong | 5,344,945 | 97,827 | 5,442,772 | 1,067,684 | 486,290 | 1,553,974 |
| | | Treaty Ports | 2,553,747 | 118,133 | 2,671,880 | 630,442 | 501 | 630,943 |
| | 1901-02 | Hong Kong | 6,639,183 | 60,022 | 6,699,205 | 726,019 | 541,731 | 1,267,750 |
| | | Treaty Ports | 5,152,881 | — | 5,152,881 | 467,881 | 285 | 468,166 |
| | 1902-03 | Hong Kong | 6,284,774 | 193,984 | 6,478,758 | 1,004,042 | 926,686 | 1,930,728 |
| | | Treaty Ports | 4,377,428 | 47,044 | 4,424,472 | 461,624 | 425,377 | 887,001 |
| | Yearly average | | 9,679,830 | 183,647 | 9,863,477 | 1,309,975 | 798,053 | 2,108,028 |
| | Percentage of increase or decrease as compared with period No. II. | | *+13·756* | *+63·817* | *+14·407* | *—23·551* | *+58·546* | *—4·910* |
| IV. | 1903-04 | Hong Kong | 7,344,602 | 136,976 | 7,481,578 | 822,833 | 602,005 | 1,424,838 |
| | | China* | 4,696,066 | 307,442 | 5,003,508 | 495,148 | 210,020 | 705,168 |
| | 1904-05 | Hong Kong | 7,738,299 | 60,191 | 7,798,490 | 820,993 | 899,934 | 1,720,927 |
| | | China | 5,399,208 | — | 5,399,208 | 461,082 | 211,876 | 672,958 |
| | 1905-06 | Hong Kong | 8,943,799 | 65,000 | 9,008,799 | 679,440 | 625,095 | 1,304,535 |
| | | China | 5,384,014 | 9,265 | 5,393,279 | 503,651 | 157,970 | 661,621 |
| | 1906-07 | Hong Kong | 7,367,193 | 53 | 7,367,246 | 561,809 | 704,212 | 1,266,021 |
| | | China | 5,327,007 | — | 5,327,007 | 433,922 | 111,239 | 545,161 |
| | 1907-08 | Hong Kong | 5,766,466 | 214,816 | 5,981,282 | 746,565 | 985,854 | 1,732,419 |
| | | China | 4,341,021 | 10,653 | 4,351,674 | 718,668 | 88,804 | 807,472 |
| | Yearly average | | 12,461,535 | 160,879 | 12,622,414 | 1,248,822 | 919,402 | 2,168,224 |
| | Percentage of increase or decrease as compared with period No. III. | | *+28·737* | *—12·398* | *+27·971* | *—4·668* | *+15·206* | *+2·856* |
| | Comparing the last with the first quinquennial group the percentages of increases or decreases are | | *+31·812* | *+695·508* | *+33·229* | *—25·078* | *—53·366* | *—40·755* |

* Exclusive of Hong Kong and Macão.

FIGURES of TRADE between—

(1) BRITISH INDIA and the UNITED KINGDOM.

(2) CHINA and the UNITED KINGDOM.

(Figures taken from the Statistical Abstract for the United Kingdom, except those relating to movements of Treasure between India and the United Kingdom; these are taken from the Indian Trade Tables.)

(1) *British India.*

| | Year. | Exports to United Kingdom. | | | Imports from United Kingdom. | | |
|---|---|---|---|---|---|---|---|
| | | Merchandise. | Bullion and Specie.* | Total. | Merchandise. | Bullion and Specie.* | Total. |
| | | £ | £ | £ | £ | £ | £ |
| I. | 1889 | 36,199,204 | 239,254 | 36,438,458 | 32,429,249 | 7,322,766 | 39,752,015 |
| | 1890 | 32,668,797 | 423,852 | 33,092,649 | 35,230,114 | 8,929,659 | 44,159,773 |
| | 1891 | 32,234,398 | 820,534 | 33,054,932 | 32,549,207 | 5,326,239 | 37,875,446 |
| | 1892 | 30,513,106 | 3,236,446 | 33,749,552 | 29,047,287 | 7,286,212 | 36,333,499 |
| | 1893 | 26,233,949 | 1,183,146 | 27,417,095 | 29,931,554 | 9,605,867 | 39,537,421 |
| | Yearly average | 31,569,891 | 1,180,646 | 32,750,537 | 31,837,482 | 7,694,149 | 39,531,631 |
| II. | 1894 | 27,648,857 | 4,331,355 | 31,980,212 | 30,114,943 | 6,109,748 | 36,224,691 |
| | 1895 | 26,431,315 | 2,248,824 | 28,680,139 | 25,487,089 | 5,398,963 | 30,886,052 |
| | 1896 | 25,285,467 | 1,411,146 | 26,696,613 | 30,841,551 | 5,774,218 | 36,615,769 |
| | 1897 | 24,813,099 | 1,470,266 | 26,283,365 | 28,009,385 | 8,489,873 | 36,499,258 |
| | 1898 | 27,470,081 | 1,613,651 | 29,083,732 | 30,362,934 | 7,980,878 | 38,343,812 |
| | Yearly average | 26,329,764 | 2,215,049 | 24,544,813 | 28,963,180 | 6,750,736 | 35,713,916 |
| | Percentage of increase or decrease in comparison with period No. I. | *— 16·598* | + 87·613 | *— 25·055* | *— 9·028* | *— 12·261* | *— 9·657* |
| III. | 1899 | 27,740,503 | 1,644,578 | 29,385,081 | 31,967,811 | 7,242,597 | 39,210,408 |
| | 1900 | 27,388,106 | 2,309,769 | 29,697,875 | 30,966,938 | 5,756,286 | 36,723,224 |
| | 1901 | 27,391,734 | 2,157,144 | 29,548,878 | 35,746,399 | 7,515,273 | 43,261,672 |
| | 1902 | 28,724,006 | 1,973,397 | 30,697,403 | 33,491,035 | 8,214,786 | 41,705,821 |
| | 1903 | 32,304,747 | 2,363,391 | 34,668,138 | 35,320,217 | 7,776,919 | 43,097,136 |
| | Yearly average | 28,709,819 | 2,089,656 | 30,799,475 | 33,498,480 | 7,301,172 | 40,799,652 |
| | Percentage of increase or decrease in comparison with period No. II. | + 9·039 | *— 5·661* | + 25·483 | + 15·659 | + 8·154 | + 14·240 |
| IV. | 1904 | 36,472,636 | 2,347,970 | 38,820,606 | 41,544,494 | 8,475,463 | 50,019,957 |
| | 1905 | 36,062,291 | 2,356,824 | 38,419,115 | 44,361,153 | 7,147,852 | 51,509,005 |
| | 1906 | 37,833,460 | 2,179,705 | 40,013,165 | 46,410,498 | 8,990,708 | 55,401,206 |
| | 1907 | 43,939,184 | 2,117,948 | 46,057,132 | 53,311,127 | 11,507,161 | 64,818,288 |
| | 1908 | 29,615,570 | 2,161,840 | 31,777,410 | 50,844,283 | 11,812,348 | 62,656,631 |
| | Yearly average | 36,784,628 | 2,232,857 | 39,017,485 | 47,294,311 | 9,586,706 | 56,881,017 |
| | Percentage of increase or decrease in comparison with period No. III. | + 28·126 | + 6·853 | + 26·682 | + 41·183 | + 31·304 | + 39·415 |
| | Comparing the last with the first quinquennial group, the percentages of increase or decrese are | + 16·518 | + 89·122 | + 19·135 | + 48·549 | + 24·597 | + 43·887 |

* Rupees converted into sterling at the exchange of Rs. 15 = 1*l.*

## Trade between British India, China, and the United Kingdom—*continued.*

### (2) *China.*

| Year. | | Exports to United Kingdom. | | | | | | | Imports from United Kingdom. | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Merchandise. | | Treasure. | | Total. | | Grand Total. | Merchandise. | | Treasure. | | Total. | | Grand Total. |
| | | Hong Kong. | Other Ports. | Hong Kong. | Other Ports. | Hong Kong. | Other Ports. | | Hong Kong. | Other Ports. | Hong Kong. | Other Ports. | Hong Kong. | Other Ports. | |
| | | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| I. | 1889 | 1,129,190 | 6,115,591 | 356,517 | 241,676 | 1,485,707 | 6,357,267 | 7,842,974 | 2,388,629 | 5,188,866 | 336,471 | 68,240 | 2,725,100 | 5,257,106 | 7,982,206 |
| | 1890 | 1,225,064 | 4,830,850 | 173,948 | 142,011 | 1,399,012 | 4,972,861 | 6,371,873 | 2,741,404 | 6,763,221 | 330,940 | 121,300 | 3,072,344 | 6,884,521 | 9,956,865 |
| | 1891 | 1,101,702 | 4,731,508 | 582,291 | 556,891 | 1,683,993 | 5,270,399 | 6,954,392 | 2,732,157 | 6,525,662 | 260,151 | 22,180 | 2,992,308 | 6,547,842 | 9,540,150 |
| | 1892 | 836,705 | 3,583,248 | 697,626 | 1,751,202 | 1,534,331 | 5,334,450 | 6,868,781 | 1,972,935 | 5,836,597 | 180,934 | 50,300 | 2,153,869 | 5,886,897 | 8,040,766 |
| | 1893 | 885,634 | 3,894,258 | 517,409 | 927,906 | 1,403,043 | 4,822,164 | 6,225,207 | 1,935,419 | 4,699,336 | 1,663,997 | 670,900 | 3,599,416 | 5,370,236 | 8,969,652 |
| | Yearly average | 1,035,659 | 4,627,491 | 465,558 | 723,937 | 1,501,217 | 5,351,428 | 6,852,645 | 2,354,109 | 5,802,736 | 554,499 | 186,584 | 2,908,608 | 5,989,320 | 8,897,928 |
| II. | 1894 | 630,818 | 3,543,362 | 580,693 | 1,477,507 | 1,211,511 | 5,020,869 | 6,232,380 | 1,980,227 | 4,592,140 | 2,170,959 | 980,230 | 4,151,186 | 5,572,370 | 9,723,556 |
| | 1895 | 759,441 | 3,343,865 | 462,296 | 651,693 | 1,221,737 | 3,995,558 | 5,217,295 | 2,044,616 | 5,363,536 | 1,313,597 | 716,180 | 3,358,213 | 6,079,716 | 9,437,929 |
| | 1896 | 797,158 | 2,973,887 | 226,522 | 858,736 | 1,023,680 | 3,832,623 | 4,856,303 | 1,959,209 | 6,860,896 | 675,151 | 106,400 | 2,634,360 | 6,967,296 | 9,601,656 |
| | 1897 | 606,314 | 2,684,722 | 194,465 | 498,504 | 800,779 | 3,183,226 | 3,984,005 | 2,079,951 | 5,179,767 | 376,003 | 164,200 | 2,455,954 | 5,343,967 | 7,799,921 |
| | 1898 | 726,637 | 2,668,064 | 221,486 | 1,466,509 | 948,123 | 3,834,573 | 4,782,696 | 2,347,689 | 5,099,497 | 631,507 | 178,450 | 2,979,196 | 5,277,947 | 8,257,143 |
| | Yearly average | 704,073 | 3,042,760 | 337,092 | 930,590 | 1,041,165 | 3,973,370 | 5,014,535 | 2,082,338 | 5,419,167 | 1,033,443 | 429,092 | 3,115,781 | 5,848,259 | 8,964,040 |
| | Percentage of increase or decrease in comparison with Period No. I. | — 32·017 | — 34·245 | — 27·595 | + 28·546 | — 30·645 | — 25·751 | — 26·823 | — 11·545 | — 6·610 | + 86·374 | + 129·973 | + 7·123 | — 2·355 | + ·743 |
| III. | 1899 | 383,126 | 3,069,452 | 340 | 200 | 883,466 | 3,069,652 | 3,953,118 | 2,862,315 | 7,136,706 | 553,891 | 1,587,350 | 3,416,236 | 8,724,056 | 12,140,292 |
| | 1900 | 1,066,048 | 2,359,821 | 47,346 | 20,268 | 1,113,394 | 2,380,089 | 3,493,483 | 2,956,262 | 5,634,313 | 870,084 | 1,808,300 | 3,826,346 | 7,442,613 | 11,268,959 |
| | 1901 | 602,841 | 2,116,119 | 224,428 | 42,134 | 827,269 | 2,158,253 | 2,985,522 | 2,797,978 | 6,827,546 | 619,966 | 651,680 | 3,417,944 | 7,479,226 | 10,897,170 |
| | 1902 | 610,398 | 2,407,207 | 125,005 | 34,451 | 735,403 | 2,441,658 | 3,177,061 | 2,274,217 | 7,188,810 | 216,135 | 274,200 | 2,490,352 | 7,463,010 | 9,953,362 |
| | 1903 | 582,764 | 2,679,367 | 104,565 | 33,891 | 687,329 | 2,713,258 | 3,400,587 | 2,891,710 | 6,798,015 | 246,801 | 114,100 | 3,138,511 | 6,912,115 | 10,050,626 |
| | Yearly average | 749,035 | 2,526,393 | 100,337 | 26,189 | 849,372 | 2,552,582 | 3,401,954 | 2,756,503 | 6,717,078 | 501,375 | 887,126 | 3,257,878 | 7,604,204 | 10,862,082 |
| | Percentage of increase or decrease in comparison with Period No. II. | + 6·386 | — 16·971 | — 70·235 | — 97·186 | — 18·421 | — 35·758 | — 32·158 | + 32·375 | + 23·950 | — 51·485 | + 106·745 | + 4·561 | + 30·025 | + 21·174 |
| IV. | 1904 | 466,811 | 2,761,841 | 75,000 | 21,095 | 541,811 | 2,782,936 | 3,324,747 | 4,574,767 | 8,889,950 | 486,957 | 84,000 | 5,061,724 | 8,973,950 | 14,035,674 |
| | 1905 | 386,440 | 2,340,346 | — | — | 386,440 | 2,340,346 | 2,726,786 | 3,841,735 | 13,298,828 | 404,841 | 556,330 | 4,246,576 | 13,855,158 | 18,101,734 |
| | 1906 | 638,507 | 3,314,453 | 325,144 | — | 963,651 | 3,314,453 | 4,278,104 | 3,220,498 | 12,306,188 | 283,957 | 150,000 | 3,504,455 | 12,456,188 | 15,960,643 |
| | 1907 | 618,860 | 3,471,933 | 78,333 | 349,064 | 697,193 | 3,820,997 | 4,518,190 | 3,355,403 | 12,137,977 | 183,250 | 376,200 | 3,538,653 | 12,514,177 | 16,052,830 |
| | 1908 | 547,339 | 3,039,613 | — | 2,520 | 547,339 | 3,042,133 | 3,589,472 | 3,088,340 | 9,292,287 | 95,000 | 727,300 | 3,183,340 | 10,019,587 | 13,202,927 |
| | Yearly average | 531,591 | 2,985,637 | 95,695 | 74,536 | 627,286 | 3,060,173 | 3,687,459 | 3,616,149 | 11,185,046 | 290,801 | 378,766 | 3,906,950 | 11,563,812 | 15,470,762 |
| | Percentage of increase or decrease in comparison with Period No. III. | — 29·030 | + 18·178 | — 4·626 | + 184·608 | — 26·147 | + 19·885 | + 8·392 | + 31·186 | + 66·517 | — 41·999 | — 57·304 | + 19·923 | + 52·071 | + 42·429 |
| | Comparing the last with the first quinquennial group, the percentages of increase or decrease are | — 48·671 | — 35·480 | — 79·445 | — 89·704 | — 58·215 | — 42·876 | — 46·189 | + 53·610 | + 92·755 | — 47·556 | + 103·000 | + 34·324 | + 93·074 | + 73·869 |

FIGURES of TRADE between INDIA and PERSIA (excluding GOVERNMENT STORES and TREASURE).

| | | Exports to Persia. | | Total. | Imports from Persia. | | Total. |
|---|---|---|---|---|---|---|---|
| | | Merchandise. | Treasure. | | Merchandise. | Treasure. | |
| | | £ | £ | £ | £ | £ | £ |
| I. | 1888–89 | 955,207 | 123,398 | 1,078,605 | 487,305 | 53,326 | 540,631 |
| | 1889–90 | 1,148,470 | 69,926 | 1,218,396 | 535,944 | 87,306 | 623,250 |
| | 1890–91 | 1,160,629 | 35,621 | 1,196,250 | 473,455 | 124,907 | 598,362 |
| | 1891–92 | 1,342,234 | 73,831 | 1,416,065 | 473,332 | 72,416 | 545,748 |
| | 1892–93 | 1,266,524 | 77,240 | 1,343,764 | 458,061 | 54,348 | 512,409 |
| | Yearly average | 1,174,613 | 76,003 | 1,250,616 | 485,619 | 78,461 | 564,080 |
| II. | 1893–94 | 1,224,747 | 102,260 | 1,327,007 | 489,470 | 120,539 | 610,009 |
| | 1894–95 | 1,586,717 | 61,463 | 1,648,180 | 529,785 | 116,575 | 646,360 |
| | 1895–96 | 1,142,959 | 61,592 | 1,204,551 | 581,865 | 83,960 | 665,825 |
| | 1896–97 | 890,674 | 74,586 | 965,260 | 457,322 | 101,355 | 558,677 |
| | 1897–98 | 936,074 | 14,709 | 950,783 | 461,275 | 73,365 | 534,640 |
| | Yearly average | 1,156,234 | 62,922 | 1,219,156 | 503,943 | 99,159 | 603,102 |
| | Percentage of increase or decrease in comparison with period No. I. | *−1·565* | *−17·211* | *−2·516* | +3·773 | +26·380 | +6·918 |
| III. | 1898–99 | 1,041,321 | 36,425 | 1,077,746 | 389,302 | 91,775 | 481,077 |
| | 1899–1900 | 740,902 | 66,286 | 807,188 | 551,955 | 80,729 | 632,684 |
| | 1900–01 | 883,315 | 92,447 | 975,762 | 475,798 | 62,634 | 538,432 |
| | 1901–02 | 817,171 | 85,153 | 902,324 | 452,036 | 48,950 | 500,986 |
| | 1902–03 | 804,741 | 31,597 | 836,338 | 432,257 | 39,121 | 471,378 |
| | Yearly average | 857,490 | 62,382 | 919,872 | 460,269 | 64,642 | 524,911 |
| | Percentage of increase or decrease in comparison with period No. II. | *−25·838* | *−0·859* | *−24·549* | *−8·666* | *−34·810* | *−12·965* |
| IV. | 1903–04 | 735,632 | 124,571 | 860,203 | 291,640 | 34,323 | 325,963 |
| | 1904–05 | 716,850 | 77,834 | 794,684 | 294,048 | 99,419 | 393,467 |
| | 1905–06 | 625,366 | 46,303 | 671,669 | 288,315 | 171,241 | 459,556 |
| | 1906–07 | 617,174 | 61,938 | 679,112 | 317,774 | 103,617 | 421,391 |
| | 1907–08 | 799,719 | 69,979 | 869,698 | 288,838 | 76,049 | 364,887 |
| | Yearly average | 698,948 | 76,125 | 775,073 | 296,123 | 96,929 | 393,052 |
| | Percentage of increase or decrease in comparison with period No. III. | *−18·489* | +22·031 | *−15·741* | *−35·663* | +49·949 | *−25·120* |
| | Comparing the first with the last quinquennial group the percentages of increases or decreases are | *−40·495* | +0·160 | *−38·025* | *−39·022* | +23·539 | *−30·320* |

FIGURES of TRADE between INDIA and other COUNTRIES, excluding CHINA and PERSIA.

(Government Stores and Treasure omitted).

| | Years. | Exports from India. | | Total. | Imports into India. | | Total. |
|---|---|---|---|---|---|---|---|
| | | Merchandise. | Treasure. | | Merchandise. | Treasure. | |
| | | £ | £ | £ | £ | £ | £ |
| I. | 1888–89 | 54,262,887 | 986,422 | 55,249,309 | 42,618,350 | 7,260,754 | 49,879,104 |
| | 1889–90 | 58,491,625 | 1,138,917 | 59,630,542 | 42,204,469 | 10,041,466 | 52,245,935 |
| | 1890–91 | 55,969,589 | 1,289,482 | 57,259 071 | 43,936,282 | 11,425,952 | 55,362,234 |
| | 1891–92 | 61,466,107 | 2,021,626 | 63,487,733 | 42,000,214 | 7,279,004 | 49,279,218 |
| | 1892–93 | 60,055,163 | 4,542,089 | 64,597,252 | 39,383,606 | 10,273,429 | 49,657,035 |
| | Yearly average | 58,049,074 | 1,995,707 | 60,044,781 | 42,028,584 | 9,256,121 | 51,284,705 |
| II. | 1893–94 | 62,320,765 | 2,473,136 | 64,793,901 | 46,453,464 | 11,358,014 | 57,811,478 |
| | 1894–95 | 62,492,985 | 5,356,104 | 67,849,089 | 44,473,202 | 5,917,257 | 50,390,459 |
| | 1895–96 | 65,732,942 | 2,680,660 | 68,413,602 | 43,668,494 | 8,563,099 | 52,231,593 |
| | 1896–97 | 59,173,136 | 3,192,017 | 62,365,153 | 46,053,084 | 8,297,932 | 54,351,016 |
| | 1897–98 | 55,937,449 | 4,406,358 | 60,343,807 | 44,691,465 | 12,781,043 | 57,472,508 |
| | Yearly average | 61,131,455 | 3,621,655 | 64,753,110 | 45,067,941 | 9,383,469 | 54,451,410 |
| | Percentage of increase or decrease in comparison with period No. I. | +5·310 | +81·472 | +7·841 | +7·232 | +1·376 | +6·175 |
| III. | 1898–99 | 65,537,068 | 4,706,264 | 70,243,332 | 44,069,666 | 10,835,389 | 54,905,055 |
| | 1899–1900 | 62,432,956 | 5,028,614 | 67,461,570 | 45,525,029 | 13,277,691 | 58,802,720 |
| | 1900–01 | 62,797,346 | 4,674,563 | 67,471,909 | 48,678,000 | 10,426,314 | 59,104,314 |
| | 1901–02 | 70,367,351 | 5,496,536 | 75,863,887 | 52,700,050 | 12,507,954 | 65,208,004 |
| | 1902–03 | 74,409,966 | 5,600,716 | 80,010,682 | 50,627,349 | 15,445,968 | 66,073,317 |
| | Yearly average | 67,108,937 | 5,101,338 | 72,210,276 | 48,320,019 | 12,498,663 | 60,818,682 |
| | Percentage of increase or decrease as compared with period No. II. | +9·778 | +40·857 | +11·516 | +7·216 | +33·199 | +11·693 |
| IV. | 1903–04 | 89,197,643 | 4,795,793 | 93,993,436 | 54,939,241 | 20,449,159 | 75,388,400 |
| | 1904–05 | 91,155,204 | 5,254,351 | 96,409,555 | 62,876,068 | 20,807,124 | 83,683,192 |
| | 1905–06 | 92,858,884 | 4,179,270 | 97,038,154 | 67,251,306 | 12,993,219 | 80,244,525 |
| | 1906–07 | 104,636,454 | 3,746,680 | 108,383,134 | 70,891,549 | 17,214,922 | 88,106,471 |
| | 1907–08 | 107,331,478 | 3,335,370 | 110,666,848 | 84,842,658 | 20,729,578 | 105,572,236 |
| | Yearly average | 96,835,932 | 4,262,293 | 101,298,225 | 68,160,165 | 18,438,800 | 86,598,965 |
| | Percentage of increase or decrease as compared with period No. III. | +44·297 | *−16·448* | +40·282 | +41·060 | +47·526 | +42·389 |
| | Comparing the last with the first quinquennial group the percentages of increases are | +66·817 | +113·573 | +68·704 | +62·176 | +99·207 | +68·859 |

# APPENDIX X.

SPEECH OF FINANCE MEMBER OF THE GOVERNMENT OF INDIA, INTRODUCING A BILL FOR THE ESTABLISHMENT OF A PAPER CURRENCY IN INDIA, 3RD MARCH 1860. Handed in by Mr. F. W. NEWMARCH, Financial Secretary at the India Office (with reference to Question 1640).

Mr. Wilson rose and said:—

Mr. President,—Sir, when I had the honour, a fortnight ago, to lay before the Council an exposition of the Financial policy of Her Majesty's Government of India, and to propose that the people of India should be subjected to some new imposts in order to relieve the necessities of the State, I then gave an assurance, on behalf of Government and myself, that we were deeply imbued with the necessity of taking stringent and bold measures for securing to India at the same time such administrative reforms as were urgently required, not only in order to secure the greatest possible economy, but the greatest efficiency in the public service. In pursuance of the notice which I gave last week, I now rise to propose our first measure in redemption of the pledge I then gave. Sir, I believe there is but one opinion throughout India, and I will add at home, that the currency of this great dependency of the British Empire is in a most unsatisfactory state; there may be, and no doubt there are, many different opinions as to the mode in which its glaring defects can be best amended; but at least all are agreed that amendment is loudly called for. And I think Honorable Members will agree with the Government in regarding this as one of the most important reforms in administration, and as one calling for the earliest attention of the Government and the action of this Council. Sir, I must say that I know no question of greater importance to the commerce, the industry, and the material well-being of a country, than that of the laws which regulate its currency. If your monetary condition be unsound, the country will be exposed, in an aggravated form, to all those vicissitudes which overtake trade, for a time paralyze industry, and impoverish the people—if, on the other hand, it be based on sound and solid principles, we may rest contented that we have at least taken every precaution within our power, if not for altogether preventing those vicissitudes, yet for alleviating their consequences and shortening their duration.

Sir, I approach this subject not without considerable anxiety—an anxiety in no degree arising from any doubt or mistrust which we have in the principles I shall have to avow on behalf of the Government, or of the soundness and adequacy of the measure I have to propose. No—my anxiety arises from a doubt in my own powers to expound those principles, and that measure sufficiently clearly to carry your views along with me; for not only is the subject of itself extremely intricate, but it has been rendered still more so by the great variety of views which have been discussed, and the great diversity of systems and proposals to which those discussions have given rise. But, Sir, it is essential for the success of our measure that we should carry pubic opinion with us in the soundness of our plans. My only aim, therefore, in now addressing you, will be to lay down those principles, and to explain our measure in a manner to make myself as intelligible as I possibly can to all; and if in so doing, I shall detain you somewhat longer than you could wish, I trust to the great importance of the subject as my excuse.

Sir, we wish to deal with this question in a broad and comprehensive manner, befitting the interests of a great country—in a manner which shall be applicable alike to all parts of India—in a manner which, being sound in principle, we may safely leave to a development as wide as the wants of India can ever require, however great they may be. Sir, we feel it to be a

great principle in Government to base our measures with regard to all matters of trade or finance on so sound a footing, that we may safely leave them to their own self-development, according to the unrestrained requirements of the public from time to time, without the constant interference which unsound principles demand from the State to bolster them up. And we feel that, in applying such principles to India, we have at least this advantage, that we have almost what I may term a *tabula rasa* upon which to act. No doubt one of the great difficulties which other Governments have had to deal with in reforming their currency legislation has arisen from a net-work of unsound practices and of existing interests which stood in their way. Fortunately, we can hardly be said to labour under such a difficulty. At the same time, the subject is so novel in India, and I may add the relation of the Government to the people is so peculiar, that I cannot but feel, in order to make our course clear and the benefits to be derived from our measure intelligible, it will be necessary for us to consider the question from its foundation, and I hope I shall not be thought pedantic if I venture to lay down some of the first axioms as to the nature and character of currency, in order that we may the better judge of the soundness of the superstructure which we shall raise in the shape of a measure proposed for your adoption.

In the first place, then, we shall, I think, be all agreed, that the only legitimate object of currency, in whatever form it exists, is to act as a medium for circulating commodities in a manner infinitely more convenient than any system of barter could effect that object; and that this is best attained by the adoption of one of the precious metals, gold or silver, as the least fluctuating standard to which the values of all other commodities can be referred and by which they can be defined. At the same time, it must be plain that, in thus setting aside a large amount of the precious metals for this purpose, we are really abstracting from the common stock of the country so much capital, and devoting it to a purpose which yields no profit or interest, but which nevertheless gives to the remaining common stock of capital so great an increased value, by the additional facilities which are given to exchanges, as fully to compensate for the abstraction of so much capital. Well, then, applying this principle to things as they actually exist in India—how do we stand? The standard which we have adopted is that of silver. Whether it is the best or not, we will consider hereafter. But at least, I must ask you to bear in mind, and never to lose sight of the fact, that from time immemorial the standard of value in India has been one of silver;—that every obligation, public and private, has been contracted in a currency of silver;—and that all such obligations to pay any given number of rupees at any date however remote, is really nothing more or less than an obligation to deliver so much silver.

Then let me ask, how much capital has there been abstracted from the common stock in India for this purpose? How much continues abstracted, performing the function I have described, though I fear in a most inconvenient form—indeed, in a form, as I shall show, which leads to further great sacrifices independent of the loss of so much re-productive capital? It may be difficult to form any precise estimate of the amount. But at least we know enough to come to the conclusion that the amount is very large. Since 1835, I find that the coinage in the three Indian Mints has exceeded a sum of one hundred crores of rupees, equal to one hundred millions of pounds sterling. But, Sir, this would give but an inadequate idea of the rate at which silver coin is being now absorbed. One hundred millions in twenty-five years give only a general average of four crores of rupees, or four millions sterling in each year. But what is the magnitude of our transactions now? In the last four years the quantity of silver coined at our Mints, and absorbed in the country, amounts to no less than forty-seven crores of rupees, or 47,000,000*l.*, being at the rate of nearly 12,000,000*l.* in each year. Sir, could we have a stronger proof of the rapid increase of the activity of our trade, and I will add of the wealth necessary to minister to it? Now, I am not unmindful of the fact that all this coin does not remain in circulation—that much of it is, unfortunately for the country and for its owners, hoarded, and that some of it is again melted down for jewellery. But making all due allowance for these abstractions, there must be in actual circulation

as coin a sum of money exceeding one hundred millions sterling, or one hundred crores of rupees, more than the equivalent of the whole debt of India; and it is an important fact that this amount is annually increasing, and must increase, as trade becomes more active, thus abstracting more and more from the re-productive capital of the country.

But, Sir, I have hinted at other ways in which the public in India, and I may add the Government, are exposed to loss through our present monetary system. Our currency consists exclusively, or nearly so, of silver coins, forming a great bulk and weight in proportion to its value. Can any one form a just estimate of the whole cost to which the public are put in transmitting this bulky coin from place to place? Can any one even judge of the expense the Government alone has incurred on this account? I have seen many estimates on this head. If I mistake not, I have seen an estimate made by Sir Charles Napier, that the protection of Government Treasure, in escort and in other ways, gave employment to something like thirty thousand native troops. But be that as it may, be it exaggerated or not, there is no question that the public of India are put to an enormous annual cost for the mere risk attending the transmission of coin from place to place.

Now, Sir, let us enquire what are the means which the application of Economical Science and experience have pointed out in far advanced and highly civilised communities, by which this great abstraction of capital from re-productive purposes can be reduced, by which the cost and risk of removing coin in bulk can be obviated, and by which a great and general economy to the State and the public can be effected? No doubt, between nation and nation, this is chiefly done by the well understood and valuable contrivance of Bills of Exchange:—in the domestic transactions of a country, this economy is to some extent effected by Banking operations and transfers, to some extent by Bills of Exchange but to a much greater extent, and in a far more convenient form, by the use of Bank Notes of uniform amount, and for such sums as suit the ordinary transactions of life; but so regulated as to represent in reality the coin for which they are used. But before I proceed further, I am desirous of here noticing some proposals that have been made from time to time in India for the purpose of remedying the defects of our monetary system by the introduction of gold coins. Now, Sir, I must say that, having given all the proposals which have been made for this purpose, or that are capable of being made, our most careful consideration, I am unable to recognise in any one of them a reasonable or unobjectionable mode of accomplishing the object. Shall we adopt a double standard of gold and silver? Sir, few will be found to advocate such a plan. No doubt, gold and silver vary in their intrinsic value in relation to each other, much less than perhaps any other two articles that could be named; but, nevertheless, they do vary, and that not inconsiderably, as the experience of the last few years has shown. In relation to silver, gold is certainly at least five per cent. cheaper than it was ten years ago; and when we come to treat of national obligations, that may represent a large sum. What effect then would the adoption of a double standard have? Why, clearly to enable the debtor to discharge his obligation in whichever might at the time be the cheapest metal. This, Sir, would destroy the whole object, and the great utility of a standard at all, and would simply enable the debtor to pay in one material what he had contracted to pay in another. Sir, we are not prepared to adopt a measure admittedly so defective and so unsound. But, then, it has been proposed that gold coins should be circulated, and should pass only at their intrinsic value, fluctuating from day to day according to the fluctuations of the price of gold. But, Sir, it would be a mere misnomer to call such coins money. Could the transactions of a country be carried on with coins which to-day might represent 10 rupees and 8 annas, to-morrow 10 rupees, and the next day 9 rupees and 8 annas, and so on? Think of the inconvenience which would arise from such a system and the altercations which would ensue between buyer and seller as to what the real intrinsic value was from day to day, or even from hour to hour. Again, think of the dissatisfaction which would naturally be felt by any one who, having received a coin of the Government at one rate to-day, found, when he required to use it to-morrow, that it had fallen in value by 4 or 8 annas.

Sir, if there is one duty more than another which the Government owes to the public in respect to its monetary arrangements, it is that the coins, which it circulates with its authority, shall be of one common and unvarying value. But another proposal has been made with a view of obviating the evil of a fluctuating value. It has been proposed that gold coins shall be issued representing 10 rupees of a certain weight and fineness, and that their value should be fixed by law as a legal tender for a given period of time, say six months or a year, when the exact value should be re-adjusted according to the market value of gold for another period of time. But what would be the practical effect of such a plan? If, after the value was fixed, gold were to rise in price, then there can be no doubt all the gold would disappear from circulation—if, on the other hand, gold were to fall in price, it would become profitable to send gold to the Mint to get it coined, and with it to purchase silver coin at a profit. In such case no doubt a considerable quantity of gold would be forced into circulation. But the day of reckoning would soon come—the time when a re-adjustment of the legal tender value of the coin would take place. A large quantity of coins which had passed as legal tender for 10 rupees for a certain time would on re-adjustment pass for 9 rupees 8 annas. Who is to bear the loss! The unfortunate holders at the time the re-adjustment took place. Would this be a satisfactory arrangement? My own belief is that in practice all these schemes to make two metals, which are always less or more varying in price towards each other, circulate in strict uniformity, would entirely fail. It has been tried in Europe under the most favourable circumstances, and has failed there. I have here a monetary convention, which was entered into in 1856, between the Austrian Government and all the other German States, with a view to have one uniform current coin. Everyone who has travalled through Germany is aware of the great inconvenience which resulted from the various coins which were in circulation throughout those States. The standard of value in Germany and the current coin are of silver, as is the case in India. But some of the parties to the Treaty, and especially the Government of Austria, were anxious to supplement their silver currency with gold coins, as has been desired in India. The plan for this purpose provided for by the Treaty is similar to that upon which I have just commented—it was provided that gold coins should be issued at a fixed valuation which should remain a legal tender, and current for six months, and should then again be subject to re-adjustment in their current value according to the market price of gold; and so on, a new re-adjustment taking place every six months. The words of the Treaty are:—

*Extract from the German Monetary Convention, dated January 24th 1857.*

Article XXI. para. *a*.—That each State is at liberty to allow their gold coins (Article XVIII.) to be taken at their treasuries in lieu of silver, at a rate of exchange to be beforehand decided upon; and this at all treasuries, and for all payments or only partially, as shall be thought proper. Such pre-decided rate of exchange shall last at the utmost for six months, and at the close of the last month is to be each time re-considered for the next similar period.

Well, Sir, when I saw that propositions of a similar character had been made here, I wrote to Lord Wodehouse, the Under-Secretary of State for Foreign Affairs, and begged that he would ascertain from the Austrian Ministry what had been the practical effect of that provision in the Treaty. I have just received His Lordship's reply. He encloses a communication from Lord Augustus Loftus, our Minister at Vienna, of which the following are extracts:—

*Extract from Despatch of Lord A. Loftus, No. 92, dated November 8th 1859.*

The provisions of the convention between Austria and the Zollverien States, affording the faculty of supplementing their legal currency by the addition of gold coinage, have virtually been a dead letter as regards Austria.

* * * * * *

Under these circumstances, the provisions in the monetary convention in question, as far as regards gold, have never been acted on, and very little gold comparatively has been coined in Austria, that metal for some years past being little current, and principally confined to the hands of money-dealers and merchants, for the purpose of making payments in foreign parts; it cannot therefore be reckoned an active or operative portion of the specie currency of the Empire.

Sir, the experience of Germany is not encouraging for India to rely upon impracticable schemes of this nature for the improvement of our currency.

But then another and more extensive change has been suggested, and that from a quarter deserving of every consideration. It has been said—why not change our standard of value?—why not, as in England, adopt a gold standard, supplemented by silver tokens of limited tender as subordinate coins? Sir, if we had now to begin *de novo*, no one would doubt that that would be a much preferable plan to that which we now find in use. But we have to deal with a system already established—a system under which an enormous amount of obligations, both public and private, has been incurred. As I have already said, those obligations in reality are to pay a given quantity of silver. And if we were now to change our standard of value, and to adopt gold in place of silver, because the former is becoming cheaper in relation to the latter, I think no one can doubt that we should by law be enabling every debtor—the State amongst others—to commit a breach of faith upon his creditor. Let us bear in mind that a reduction in the price of gold of only 5 per cent. would, under such circumstances, in effect reduce the claim of the holders of the public debt of India by no less a sum than five millions sterling. Sir, we are bent upon reform and economy in every legitimate shape that lies within our reach, but we believe that the credit of the Government will be best sustained by the most rigid observance of good faith in all its transactions.

Then, Sir, however free we are to admit the great inconvenience of the existing system, we are unable to look in the direction of a gold currency for a cure of its defects. But we think we can propose one in every respect more effective for all the objects we have in view, and one which will strictly maintain the integrity of our present standard, and which will not expose us to the suspicion of tampering with the obligations of the State. We have no doubt that all the objects at which both we and the public aim, will be far better and more perfectly accomplished by having recourse to a sound, well-regulated, Paper currency of general application to the whole of India, and at all times easily and readily convertible into the coin which it represents—a Paper currency so well secured that it can safely be made a legal tender in all transactions throughout India. Sir, on all hands, and by all our most accredited authorities on Political Economy, the adoption of a paper circulation so well guarded as always to maintain the full value of the coin it represents, is regarded as one of the highest and most beneficial efforts of political science and civilisation. It enables us to use as an instrument of circulation, in place of the unwieldy and costly coins which we do at present, a representation of them which costs little or nothing, but which in every way is infinitely more convenient. In this way it effects a great economy of capital by releasing the precious metals which are much more imperfectly performing the same purposes. Some writers have compared the adoption of a Paper currency to the discovery in the country of new mines, because you do really add to the effective wealth of the country, to whatever extent paper replaces the coin in circulation. Adam Smith, I think, it is who compares the economy thus effected to a discovery by which all your locomotion could be conducted without roads, and by which you were enabled therefore to add the existing roads to the portion of the land under reproductive cultivation. The road is an abstraction from the fruitful portion of the soil, but the sacrifice is abundantly compensated for by the additional value which it gives to the rest; so the precious metals used as a circulating medium, yielding as it does no interest, and being, as I have said, an abstraction from the reproductive capital of the country, the loss of which, however, like the land used for roads, is compensated for by the greater value given to the remainder. But, Sir, if we can to a great extent, by the use of paper, effect the same object, then we release that unproductive capital for other purposes, while we confer a greater convenience upon the public. The inconvenience of the present money in use is sufficiently familiar to every one in private life—the inconvenience to those engaged in large transactions, especially out of the Presidency Towns, and where there are no bank notes, is still greater. In one of the large Trading Towns in the North-West I found a remarkable example of this inconvenience. I found that recourse had been had for a circulating medium, in order to save the labour and time of counting large sums in rupees, to the use of mysterious sealed bags, said to contain a thousand

rupees each. These bags circulate freely in wholesale transactions, upon the faith the merchants have in each other, with a "chit" or letter of indorsement, without always any precise knowledge of what the real contents are. Sir, when recourse is had to expedients of this kind, we have ample proof that some reform in our existing system is loudly called for. But, Sir, independent of the great economy of capital which is thus effected by a Paper currency, there will be a further economy in three other important ways—first, we shall find a great reduction in the cost of the Mint; next, we shall save the wear and tear to which the coin in circulation is exposed, and the great loss which the public incur from light coins; and, lastly, we shall, both as a Government and as a community, save not only great expense but also great risk in the transmission of money from place to place—we shall be able to adopt the improved plans of civilised nations in place of adhering, as we do to this day, to a practice which had its origin long before the Christian era.

But, Sir, a Paper currency, in order securely to carry out all these advantages, and to be a perfect representation of coin, must be based upon certain well-known and defined principles. In order that the paper shall be identical in value with the coin, it must not only be made convertible in theory and by regulation, but sufficient security must be taken to provide for that convertibility at all times. By this means the quantity of paper in circulation will always be identical in quantity with what it would be were it to continue wholly a metallic circulation. The notes issued would not be an addition to, but a mere substitution of, the silver coins which they displaced. It is, Sir, a Paper currency upon this sound principle which we seek to establish in India—a principle which has stood the test of experience in other countries, where it has been found equal to the magnitude of the largest trading transactions. But in order that a Paper currency shall fulfil all the purposes of coin it is necessary that it should be a legal tender everywhere, except at the place of its issue, where it is convertible into coin, and it should moreover be received by the Government in payment of revenue and for all other purposes.

Assuming then, Sir, that I have been fortunate enough to carry the Council thus far with me, it will now become my duty to state in what manner the Government is of opinion a Paper currency, combining all these advantages, can best be carried into effect. And here I propose, for the sake of clearness, to divide our plans into five distinct heads—first, as to the agency through which such notes can best be issued; second, as to the manner in which the necessary securities can best be taken for the conditions which I have laid down as essential to a well regulated Paper currency; third, as to the functions to be entrusted to the issuing body; fourth, as to the denomination of the notes to be issued; and, fifth, as to the securities to be taken against forgery.

In the first place then, Sir, we are to consider what will be the best agency to use for the purpose of circulating a Paper currency. Now, let us bear in mind that the proposal is, and we think that essential, that the notes to be issued are to be a legal tender in all transactions between man and man, that they are to be received at every Government Treasury for all demands of the Government for revenue or other purposes, and that the system is to be general, and to extend over the whole of India. It is essential that we should bear these conditions in mind. Well, in point of practice, the issue of paper money has hitherto been usually confined to banks or to Governments. I may say most usually to banks, and there is no doubt that in old countries, where the system has long been combined with the institutions of trade, and where the machinery of banks upon a sound basis exists and is spread all over the country, they possess considerable facilities for exercising this function. But let me here remark that the issue of notes does not necessarily constitute any part of the business of a banker, who is more properly a dealer in capital; a borrower from one man and a lender to another upon higher terms, which forms his profit; in short, a most useful and beneficial medium, through which the spare capital of one portion of the community is rendered profitable in the hands of another. We can have no better proof of this than the facts that, notwithstanding the great number of private and joint stock banks in

London, none of them (the Bank of England only excepted) do or ever did issue notes: in Manchester, one of the largest emporiums of trade in the world, not one of the Banks (the branch of the Bank of England excepted) issues notes; and by the laws of 1844 and 1845 all Banking Companies established after those years within the United Kingdom are distinctly interdicted from issuing notes. We require no further proof that the issue of notes is no necessary part of a banker's business. But, Sir, there are peculiarities in our position in India, and in the system which, on the part of the Government, I am about to propose, which would render it even more difficult than usual to employ the agency of Banks in India. In the first place the system is to be universal. How many years should we have to wait before we could expect that any Banks, however extensive their capital, could establish branches throughout the whole country for this purpose? But, again, even though that difficulty were got over, we have still another which I regard as insurmountable. Our notes are to be a legal tender; they are to be received by every private person, as well as by the Government, in discharge of all ordinary claims. To attach this condition to our notes, we must provide absolute and undoubted security for their payment, not only for their ultimate payment but for their convertibility into coin when required. Well, Sir, if we employed the agency of a Bank, we should require not only a deposit of securities which would ensure the ultimate payment of the notes, but also of a proper reserve of bullion, to secure their prompt and immediate payment. We could not make them a legal tender on any other conditions. Well, but the business of a Bank established upon such a scale could not be, and it would not be desirable that it should be, confined to the issue of notes. It would extend to all other banking business. It would hold deposits, it would issue bills of exchange, it would discount and negotiate mercantile paper: in short, it would have a great variety of creditors other than those who held its notes. Would it then be practicable, would it be fair towards the great body of its creditors, if so large a share of its assets, as I have said, should be set aside as security for its notes in favour of one class of its creditors, to the possible injury of all other classes? Would it be fair to protect the note-holders at the possible risk of the depositors? Sir, with one exception, to which I will shortly refer, I know of no Bank whose issue of notes are a legal tender: the Banks in Scotland all issue notes, but they are not a legal tender; the notes of the English and Irish local Banks are not a legal tender; the notes of none of the American Banks are a legal tender; the notes even of the Bank of France are not a legal tender; the notes of the Bank of England only, and this is the exception to which I referred, are a legal tender, and this exception is defended upon the ground that the Legislature has entirely separated the department for the issue of notes from the department for general banking business, and that it has provided that, in the issue department, there shall at all times be retained public securities and bullion to the full amount of the notes which, from time to time, it issues. Now there may be, and no doubt there is, a question how far this separation of accounts is real or nominal, as it affects the interests of the different classes of creditors; but practically, considering the large capital of the Bank of England, upwards of seventeen millions sterling, including the Rest, and considering the publicity given to all its transactions and its accounts, the question would never arise. But with a new establishment in India it could not but be otherwise. On every ground, then, while we wish to see banking establishments extended, we have come to the conclusion that we cannot avail ourselves of the agency of Banks for a general Indian paper currency.

But, Sir, if there are special reasons why Banks in India cannot be used for this purpose, there are others as special and peculiar to India which point to the remarkable facilities possessed by the Government for the issue and management of a paper circulation. Throughout India, in every part, however remote, the Government has an organised body of public officers, of receipt of revenue on the one hand and of expenditure on the other. Indeed, it is not too much to say that the great recipients and disbursers of money throughout the whole of India are the revenue and other officers of the Government. The Government Treasuries may be said practically to

represent the great bulk of monetary transactions in most districts. Practically the transactions of these Treasuries, and the money that is accepted at them, must regulate the transactions of India. Well, but Sir, we have to use every possible precaution against abuse of the power which the Government would have, if it had an uncontrolled authority to issue notes. If we are to make the notes a legal tender, we must take absolute security not less than that I have described for the safety of those notes. We must take care that, under no circumstance can the Government abuse the privilege of making paper money, and by over issues for purposes of expenditure endanger their convertibility, and thus run the risk of their depreciation. We do not then propose that the Government itself, in any of its existing departments, shall be empowered to issue notes, but that, by the Bill which I shall ask leave to introduce before I sit down, a Commission shall be formed, whose duties shall be strictly defined by law, over whom the Government shall have no power except within the limits of the Act, and who shall be bound upon oath to obey the provisions of the Act. Sir, in this we aim at no novelty. In this and all our measures we are not ambitious of being regarded as ingenious inventors; we are content to accept the more humble, but by far the safer function of applying, in the most approved manner to the circumstances of India, those great principles of sound science and its practice which long years of discussion and experience have proved in advanced countries to be compatible with public interests and public security. Sir, as nearly as possible, we take the issue department of the Bank of England as our model; but we take it under most favourable circumstances, being stripped of its only objectionable feature, its connection with the banking department.

This, then, brings me to the second point. The manner in which security shall be taken for the performance of the conditions which we regard as essential to a paper circulation, which is a legal tender; and, together with this, we may, to save time, consider also the third head, that is, the functions of those who will be entrusted with the issuing of the notes. Sir, for this purpose we propose to divide the three Presidencies into convenient districts, to be called *Currency Circles*. Our object will be so to arrange these circles that the chief station of one of the existing districts for revenue purposes will be near to its centre. In connection with the Mint at Calcutta will be the head establishment, where the notes for the whole of India will be made, under the direct superintendence of the Head Commissioner. In connection with the Mints at Madras and Bombay, there will also be established Commissioners, in whose charge the circulation of those Presidencies will be placed, and who will be supplied with notes from Calcutta. But for the sake of clearness I will confine my observations now to this Presidency. The local circles having been determined and fixed, the chief station within it, where we should find the principal Treasury of the district, which would also be a Military Station, and at which a considerable European population would be found, such a place for example as Benares, or Allahabad, or Lahore, would be fixed upon as the station for the Branch Department of Issue, under the control of a Deputy Currency Commissioner. The functions of the Commissioner in Calcutta and of the Deputy Commissioner at the local branches, so far as regards the issue of notes, would be precisely those of the Issue Department of the Bank of England. They would receive coin and silver in exchange for notes, and they would always be prepared to pay coin in redemption of the notes of their district. The notes, like those of the Bank of England, would be of similar appearance for all India, but the notes of every Branch would bear upon its face the name of the Branch at which it is issued. All Branch notes will be payable in silver at the Branches from which they are issued, and also in the Presidency Towns to which the Branch belongs, whether Calcutta, Bombay or Madras. The notes will be received into every Treasury in the circle in which they are issued in payment of revenue and of all other claims of Government. But there would be no more connection between the Government Treasuries and the Issue departments than with private Banks. In the first instance, the Government Treasuries would exchange such part of their silver as they desired for notes: the Issue department would receive

the coin, and the Treasuries the notes representing it, for circulation. Bankers and others requiring notes for the purpose of trade would obtain them in exchange for silver; and in the seaports, merchants importing silver would carry it to the Issue department, and at a fixed rate would at once receive notes for the full amount in place of waiting, as they do at present, till it is coined; thus giving them the same advantage that the importer of bullion has in London in carrying his bullion to the Bank of England, and of receiving its own notes in exchange, which are convertible into coin, and can at once be used for all trade purposes. Now, according to this plan, it will be plain that the Issue departments, neither in Calcutta, nor in the districts, can ever have in circulation a larger amount of notes than they possess coin to represent; but inasmuch as a larger proportion of the notes thus circulated will remain out, and at any time only a small proportion can ever be presented for payment, each Branch and each chief department of issue will be permitted to invest a portion, in no case exceeding two-thirds, in Government paper, which will be held by the Issue department, specifically appropriated to the payment of the notes, and the remainder, not less than one-third, will be held in bullion, ready to meet the claims of those who wish to exchange their notes for coin. The necessary balance of coin at all the branches will be kept up, if needful, by supplies from the head departments in the Presidency Towns. The circulation of the Bank of England is usually about twenty-one millions, which is represented by fourteen millions of public securities, and the remainder in bullion. By these means, Sir, we should give to the country all the convenience to be derived from a Paper currency. We should effectually provide at all times for its absolute security and for its instant convertibility. The Issue department would always be possessed of bullion and public securities together to the full extent of the notes issued: be the amount ever so great, the principle would be so sound that no other limit need be placed upon the action of the department. The legitimate demands of trade alone would determine the amount of the circulation, without any interference on the part of the Government to attempt to regulate it. Such a mixed currency of paper and coin would exactly correspond with that which, under present circumstances, would exist, if we continued to circulate coin only, and that, Sir, is on all hands admitted to be the true test of a sound currency. These, Sir, are the functions which the Issue departments will peform, and these the securities which we propose to take for the performance of the conditions which I have described as being essential to a sound Paper currency, and we have no doubt they will be considered as ample for the purpose. And, Sir, it will be obvious that by this means a large profit will accrue to the Government. The Commissioners of the Issue department will receive the dividends due upon the stock which they hold, which they will pay into the public Treasury as the profits of the note circulation: but the Government will be benefited in another form, it is impossible that so large an amount of public securities can be taken out of the market without raising their price, and proportionately in a most legitimate way improving the credit of the State. The practical effect of these measures will indeed be the redemption of so much of the public debt as shall be thus held by the Commissioners of the Issue department of the Government.

Then, Sir, we have next to consider what ought to be the denomination of the notes so issued? This is a subject upon which much difference exists both in opinion and in practice, and it will be obvious that it can only be properly determined by a reference to the character of the transactions of a nation, whether as a rule they represent very small and minute sums, or whether they represent generally larger sums. In England the lowest denomination of notes is 5*l.*; in Scotland and in Ireland it is 1*l.*; in France it is 100 francs; in the United States it is one dollar or about 4*s.* 2*d.*; in some of the North American Colonies one dollar notes freely circulate; throughout Germany the thaler note, of value little more than 3*s.*, is the most common circulation; in Mauritius the circulation consists of notes of 5 rupees or 10*s.* and upwards; in Ceylon the notes are of 10*s.* and upwards, formerly they were of 5*s.*, and by a report on the subject which I recently

received from the able and accomplished Governor of that Colony, Sir Henry Ward, it appears that the suppression of notes of that denomination had been attended with inconvenience to the planters and others, of which complaint had been made. But from what I have already said, it will be apparent that, as a matter of security, it is much more important that the circulation should be based upon a really sound principle, than in any way unduly restricted in the denomination of the notes. It must be plain that a principle which makes notes of a large denomination safe and secure must equally extend to those of a lower denomination. And, Sir, there will be a peculiar source of absolute security in respect to the paper circulation of India, which attaches to perhaps no other Bank of Issue in the world. In all other cases with which I am acquainted, notes are issued to the public in the shape of loans, in discount of bills, and as advances in various forms. Now it may be said, and truly, that even if issued for those purposes, they could not remain out in excess of the public requirements so long as they are convertible at the pleasure of the holder into coin. This is a point upon which the great majority of practical authorities may be said to be now agreed. To believe that convertible notes can continue in circulation in excess, is to contend that a note that can be easily and instantly exchanged for coin can be depreciated, because the only proof that I know of an excess of circulation is depreciation of the notes in relation to the coin it represents. Now no one I think will contend that any man having a note in his possession which did not command the same exchangeable value as the coin it represents, and having it in his power to exchange that note for the coin, would fail to correct the anomaly by that means. But there have been those who have thought differently, and even to those I would say that the issue of notes upon the principle we propose cannot possibly be attended with any such risk. Sir, our notes will be purely bullion notes, they will be issued only in exchange for bullion: there will be no issues as credit advances in any shape whatever. That is the legitimate business of Banks. It is ours to furnish a circulating medium—it is theirs to use it in all the variety of forms which credit transactions assume. In our case we are absolutely restricted, and by force of a great and obvious principle we maintain intact the full intrinsic value of the currency—in theirs, they are governed by the ordinary principles which govern all commercial transactions. Well, Sir, these are not unimportant considerations, when we are determining the denomination of the notes to be issued. But the main consideration, after we have determined upon a sound self-acting principle, is the character of the transactions of the country and the denominations of the coin in use. It is the imperative duty, it is the interest of a Government, to furnish a circulating medium for exchanges determined in amount by the wants of the community. Well, the great characteristic of Indian transactions is their number and their multiplicity. And, then, if we bear in mind that the highest denomination of coin in circulation is one of only a single rupee or two shillings, while in England the common coin is one of twenty shillings, it would appear that we should be justified in adopting the old practice in Ceylon and the present practice in many countries, and adopt notes of a denomination as low as two or two and a half rupees. But, Sir, we do not propose to go so low—we propose to begin with five rupees or ten shillings, adopting the limit at this time actually in practice in Ceylon and Mauritius; and beginning with that denomination, to have others of *ten, twenty, fifty, one hundred, five hundred,* and *one thousand* Rupees, which latter I hope will take the place of the mysterious sealed bags which circulate at Mirzapore.

Sir, we think it is essential to the plan to have notes of a small denomination, in order to furnish change for the notes of larger amount, which will be extensively used as an easy mode of remittance from one part of a district to another. As I have said before, these notes will be payable in coin at the central offices of the district from whence they are issued, and they will be all payable as well in Calcutta, Bombay, or Madras, as the case may be. They will be receivable in every Government Treasury within the circle in payment of revenue or any other claims of the Government whatever. And I cannot help believing that such a system of currency will

prove of an immense convenience, compared with the present cumbrous system of conducting all our transactions, however large, in two-shilling silver pieces.

Well, then, Sir, the fifth and last head is, what precautions we are prepared to take against forgery? and I think we shall be able to satisfy you that we have not only not been unmindful of that important point, but that we have already taken measures, and that successfully, which will give us every security that it is possible to attain on this head. But here I would remark upon a point which I think has been too much overlooked in connexion with the relative risk which exists between a currency of coin and one of paper. We must bear in mind that coin can be counterfeited while notes can be forged. Two years ago, I moved for a return in Parliament of the number of prosecutions which had taken place in England, Scotland, and Ireland, during the ten preceding years, in connexion with the making and uttering of base coin, and in connexion with the forging and uttering of forged notes. I hold that return in my hand. The result is that in England and Wales, during the ten years, the cases of prosecution in relation to coins numbered no fewer than 6,291, while the number of prosecutions in connexion with forged notes were only 1,866. Again, in Scotland, and here let it be borne in mind that the denomination of the notes in circulation is as low as *one pound*, and where the circulation consists almost exclusively of paper, the number of cases of prosecution in connexion with base coin was 570, while the number in connexion with forged notes was only 4. Again, in Ireland, where the lower denomination of notes also prevail, the number of cases of prosecution in connexion with coinage was 338, while in connexion with forged notes they were only 41. In the whole of the United Kingdom, the prosecutions in relation to base coins were 7,199 for the ten years, while those in connexion with forged notes were only 1,911. I think these returns conclusively show that the risk of counterfeit which attends any system of currency is by no means confined to Bank Notes. I believe I am right in saying that the attempts at counterfeiting coins in India are very rare and that prosecutions in relation to such crimes are not of frequent occurrence. No doubt the complicated machinery required for coining, and the great cost and skill necessary to make it, and the rareness of skilled artificers to work it, may be said to be one of the reasons why this class of crimes does not prevail in India--for we must bear in mind that it requires a large outlay of capital, and a large employment of the most ingenious skill (which so much abounds in England), to manufacture even counterfeit coins. But, Sir, if this difficulty has hitherto shielded the Indian public from the dangers of a base coinage, I think I shall be able to show that the steps we have taken will be even more perfect for shielding it from the evils of forged notes. Sir, we know well how expert some of the people in the East are in imitating hand-writing. I have heard of a case in which one of your predecessors, Sir—a former Chief Justice of Calcutta—was deceived on the Bench by the production of a document purporting to bear his own signature, and which turned out to be forged. We all know, too, the number of forged documents which are used in our Courts of law—an evil so common, that the Honorable Member for Madras has submitted to us a Bill, the avowed object of which is to check these proceedings. But be it observed that all these attempts are made in connexion with the hand-writing. I have not heard of a case where an attempt has been made to forge the stamp to a document. Sir, our precautions will consist altogether of those of a mechanical character embracing the use of machinery and scientific operations of the most refined character, but at the same time plain and palpable to the eye of the commonest observer. Sir, as soon as I had accepted Her Majesty's gracious appointment to the responsible office I now fill, my attention was at once turned to this most obvious reform in our Indian administration. I immediately put myself in communication with the Governor and Deputy Governor of the Bank of England, and the able and intelligent mechanical officers who have the sole management of the manufacture of the notes. And, Sir, on the part of the Government of India, I must here tender to those distinguished functionaries, and to their accomplished officers, our best thanks for the very effective aid which, as I shall immediately show you, they already have, and

are prepared still further to extend to us in this very important matter. Sir, it is no slight advantage in starting a new career in a matter of this important kind, to have behind us the aid and support of an experience in the most civilised country in the world of nearly two centuries. If there is one thing more than another with regard to which the British Parliament has, at all times, been ungrudging, it has been in extending to trade all the legitimate protection against fraud within its power; and to the Bank of England, as being the chief issuer of paper money, it has extended every possible security against forgery. It has, by law, given to that corporation the sole right to use paper manufactured in a particular way, and to use printing of a particular kind. But it is not so much on legal restrictions of this kind that the Bank of England relies. It is not upon the writing or printing of notes, for after the experience of many years, it has become a settled principle in the Bank of England, that the plainest and simplest form of notes is the one in which forgery is most easily detected, and that elaborate notes are most easily imitated. What the Bank of England chiefly relies upon for its protection is the paper which it uses, and the water-marks with which the paper is made. The paper is only made by one house, which is bound to supply the Bank of England alone, and admit no stranger to enter the premises. Well, Sir, whatever advantages the Bank of England enjoys under Acts of Parliament, or in the exclusive manufacture of paper, or in the monopoly of those water-marks, the Directors have generously consented to extend to the Government of India. They have gone further, and pending our preparations in India, they have consented to make notes for us. Sir, I hold in my hand a specimen note for ten rupees, which I received from the Governor of the Bank by a recent Mail: the paper of which contains water-marks similar to the notes of the Bank of England, with the variation only of the words. This specimen has in the water-mark the words "Government of India" along the top of the paper. The word "Ten" in the centre, and the word "Rupees" below. Sir, that which the mechanical skill of England has proved unable successfully to imitate, we may rest satisfied will be secured from counterfeit in India; and the great advantage here is that the water-mark, as a test of a genuine note, is plain and visible to the eye of the most unlettered person. As a proof of the great perfection which the system has reached in the Bank of England, I may mention a very striking fact. It will have been observed that each Bank of England note has inscribed a number with two capital letters attached. If that number, with the two letters, were cut out of a note and all the rest of it destroyed, so perfect is the system, that on presenting that small remnant of the note, the Bank would be able to say whether the note has been paid or not, what the amount of the note was, and the date and place of its issue:—and upon this relict alone they would be content to pay the note, of course taking security that the remainder would not be presented. Sir, it is with all the advantages of a system so perfected, and with the hearty aid and co-operation of the Directors of the Bank of England, that we shall introduce the system of a Paper currency into India. I may here add that the denomination of each note will appear on the face of it, not only in English, but also in the two languages most in use by different classes in the districts where they will circulate. In addition to these securities, the Bill which I now ask to introduce will contain provisions similar to those of the English law, for the punishment of those who may attempt fraudulent imitations.

Sir, I have now, I fear at much too great a length, but it was needful that I should make myself clear upon a subject with respect to which any misapprehension might prove very prejudicial, explained the broad outlines of our measure: we propose to have a paper note circulation of denominations, varying from five rupees up to one thousand rupees, to be issued at the Presidency Towns and at the centres of circles or districts mapped out for this purpose; that they shall be payable in coin at the centre where they are issued and in the Presidency Towns to which the circle belongs; that they shall be receivable by the Government for all claims of whatever kind; that they shall be a legal tender between man and man in the settlement of every claim; that they shall be issued only in exchange for coin or bullion; that a certain fixed proportion of bullion and coin shall always be

kept in hand to secure the convertibility of the notes; and that public securities shall be held in the Issue department for the full amount of the difference.

But, Sir, there is one very important point to which I must now refer. We have at the present time three Banking Corporations in India, in each of which the Government may be said to be a partner. The Government hold shares in each, and is fully represented in the Direction. Those corporations issue notes, but they are not a legal tender, nor do they circulate much beyond the Presidency Towns, nor are they received without limit into the Government Treasuries. Now, Sir, even if it were desirable, it must be plain that such notes could not circulate along with the Government notes, which I have described as a legal tender. The Charter under which these respectable Banks exist are subject to revision at any time on twelve months' notice being given. It must be plain that such a system as I have very inadequately attempted to describe should be general and universal over India to secure all the advantages which it is calculated to confer. Sir, then we have decided to give the necessary notice to enable us to modify those Charters. But I must here say that the Government feel that those Banks have conferred a great benefit upon India, and that they will deserve every consideration consistent with the public interest at our hands, and I trust that we may fall upon some plan which, without involving any sacrifice on the part of the public, may compensate, at least in some degree, those Banks for the privilege which they have so long enjoyed, and which I have never heard them accused of abusing. Sir, I think we shall find when we come to look at those Charters that they unnecessarily restrict their operations, and that we may also find that we may confer upon them new functions equally for the benefit of themselves and the State. In conferring advantages upon the public it is our desire to deal as tenderly with private interest as is consistent with the great objects we have in view.

Sir, in the early part of my observations I referred to the fact that the precious metals, to whatever extent they are employed for the mere purpose of coin in circulation, are really an abstraction to that extent from the real reproductive capital of the country, and I wish now to show in what way the measure which we propose will operate in restoring this capital to reproductive channels. Independent of all the advantages which will accrue to the country by the adoption of a sound Paper currency, that which I am about to describe is most important, if not the most important of all, however less apparent it may be at first sight. I have already shown you by what process the Government would become possessed of a large share of the securities representing the debt of the State, by employing a portion of this coin, withdrawn from circulation and replaced by notes, in the purchase of such securities. But, Sir, it will be plain that to whatever extent the Currency Commissioners become purchasers of public stock there must be sellers to the same extent, to whom the surplus coin would be paid. Those persons would not permit their capital so relieved from one investment to remain idle, but would naturally seek other profitable modes of using it. To this extent capital would be more abundant, competition for its employment would be greater, and the tendency would be, to use a familiar phrase, for money to become cheaper. No doubt the first tendency would also be for silver to fall in price as it became released from the circulation, the first effect of which would be to lead to its exportation to any country where the merchant found it would yield a profit, and by this operation the equilibrium of value would be instantly restored. In short, to abstract so much coin from the mere mechanical purpose of the circulation, supplying its place with convertible paper, would be exactly the same in effect, as if suddenly, in the centre of the Midan, a rich silver mine had been discovered, and which produced silver at little or no cost. The first operation would be to lead to an export of that silver in exchange for articles of various descriptions which were really in demand, and by which means to the full extent the real wealth of the country and the aggregate amount of its reproductive capital would be increased. Mr. Ricardo, in his able pamphlet upon "The High Price of Bullion," published in 1811, has so admirably illustrated this point, that I trust you will permit me to read an extract from it:—

*Extract from the works of D. Ricardo, Esq., "The High Price of Bullion."**

If a mine of gold were discovered in either of these countries, the currency of that country would be lowered in value, in consequence of the increased quantity of the precious metals brought into circulation, and would therefore no longer be of the same value as that of other countries. Gold and silver, whether in coin or in bullion, obeying the law which regulates all other commodities, would immediately become articles of exportation; they would leave the country where they were cheap for those countries where they were dear, and would continue to do so as long as the mine should prove productive, and till the proportion existing between capital and money in each country before the discovery of the mine were again established, and gold and silver restored everywhere to one value. In return for the gold exported, commodities would be imported; and though what is usually termed the balance of trade would be against the country exporting money or bullion, it would be evident that she was carrying on a most advantageous trade, exporting that which was in no way useful to her, for commodities which might be employed in the extension of her manufactures and the increase of her wealth.

If, instead of a mine being discovered in any country, a Bank were established, such as the Bank of England, with the power of issuing its notes for a circulating medium, after a large amount had been issued either by way of loans to merchants or by advances to Government, thereby adding considerably to the sum of the currency. The same effect would follow as in the case of the mine. The circulating medium would be lowered in value, and goods would experience a proportionate rise. The equilibrium between that and other nations would only be restored by the exportation of part of the coin.

The establishment of the Bank, and the consequent issue of its notes, as well as the discovery of the mine, operate as an inducement to the exportation either of bullion or of coin, and are beneficial only in as far as that object may be accomplished. The Bank substitutes a currency of no value for one most costly, and enables us to turn the precious metals (which, though a very necessary part of our capital, yield no revenue) into a capital which will yield one. Dr. A. Smith compares the advantages attending the establishment of a Bank to those which would be obtained by converting our highways into pastures and cornfields, and procuring a road through the air. The highways, like the coin, are highly useful, but neither yield any revenue. Some people might be alarmed at the specie leaving the country, and might consider that as a disadvantageous trade which required us to part with it; indeed, the law so considers it by its enactments against the exportation of specie; but a very little reflection will convince us that it is our choice and not our necessity that sends it abroad, and that it is highly beneficial to us to exchange that commodity which is superfluous for others which may be made productive. The exportation of the specie may at all times be safely left to the discretion of individuals; it will not be exported more than any other commodity unless its exportation should be advantageous to the country. If it be advantageous to export it, no laws can effectually prevent its exportation. Happily in this case, as well as in most others in commerce where there is free competition, the interests of the individual and that of the community are never at variance.

Sir, it is by this process that the capital, which is now unprofitably employed in this country to a great, and I will add so rapidly an increasing extent, will be by the most legitimate means released and restored to the channel of reproductive uses. I may be asked to what extent we expect by this means to economise capital? Sir, that is a point upon which I am not prepared to hazard a speculation; but if we take into account the fact that in the last twenty-four years silver, to the extent of one hundred crores of rupees, or one hundred millions of pounds sterling, has been coined, and that the demand for coin has increased so rapidly, that in the last four years silver, at the rate of nearly twelve crores of rupees, or twelve millions of pounds sterling, has annually been coined, we must arrive at the conclusion that ultimately the amount will be very large. No doubt the introduction of the system must be slow and gradual at first—the time required to establish the necessary machinery and appliances will lead to this—but I regard this limit upon our efforts rather as an advantage than otherwise, because it will afford time for people to become familiar with the system before it assumes large dimensions. Our attention will be first directed to the Presidency towns, from which the system will be gradually extended into the Mofussil until it has permeated over the whole of India.

Before I conclude there are three subjects of a somewhat kindred character to which I would wish shortly to refer. The first has reference to a question which has been much discussed by capitalists in England as well as in India. I refer to the proposals which have been made for the purpose of establishing upon a large scale, and with an adequate capital, a national Banking establishment capable of gradually embracing the great Banking operations in India, and of extending its Branches to the interior trading cities as opportunity might offer. That there is a growing want for such an institution and a rapidly increasing field for its operations no one can doubt. The Government is, therefore, desirous to be understood that

* Pages 4–6 of the Fourth Edition, published by Mr. John Murray, 1811.

the plan which has been adopted for the introduction of a legal tender paper currency is not intended in any way to discourage or to interfere with such a project, the operations of which would be those of legitimate Banking transactions in India and exchange operations abroad. The second is the subject of economising our cash balances and the great cost to which we are now put by retaining all our cash in our own Treasuries, and disbursing every payment in hard coin. This system has been abolished in England for more than half a century, and the far more convenient and economical form of a Bank account has been resorted to. Sir, this subject engages the earnest attention of the Government. The third and last point to which I wish to allude is the extremely defective condition of our copper coinage. During my journey up the country there was no complaint which was so common amongst the lower classes than the sacrifice they had to submit in the native bazars in getting copper change, absolutely needful for their scale of expenditure. It is not too much to say that the poorest of the people have been taxed as much as five, and in some cases ten per cent. upon their little incomes from this cause. Sir, I hope we shall take care, in future, to provide against this evil. A large importation of copper coin, to the extent of ten lakhs of rupees, has been ordered from England; a new mint for copper coin alone may shortly be expected at this place, and another is ordered for Bombay; and we trust that the well-founded complaints on this head will soon cease to exist.

Sir, I have now laid before you the plan which the Government has devised as the best adapted for India for conferring upon it the great advantages of a perfect system of currency. As I said before, we have aimed at no novelty; our effort has been to adapt to our own circumstances principles which the wisdom of great men has defined and laid down with philosophical accuracy and practice, which the experience of the most enlightened commercial countries has approved. Sir, these are subjects which have engaged the attention of intellects of the highest order in modern times. Newton and Locke and Adam Smith applied their most profound researches to these subjects. In this present century they have, perhaps, more than any other branch of political science, absorbed the attention of able and acute minds—eminent men like Hormer, Huskisson, Lord Liverpool, Ricardo, Tooke, Sir Robert Peel, Lord Overstone, and Norman have brought to this important subject the greatest power of mind and the largest experience. Then we have had Parliamentary Committees almost without number; we had the Bullion Committee in 1811; the Committee on the Resumption of Cash payments in 1819, presided over by Sir Robert Peel; then we had the Committee on the Bank Charter in 1831; next the Committee on Banks of Issue in 1840 and 1841, presided over in a most able manner by the present Secretary of State for India, Sir Charles Wood; then we had the Commercial Distress Committee of 1848; then the Bank Charter Committee of 1857; and, lastly, the Committee of 1858—of the last three of which I had the advantage of being a member. Well, Sir, it is upon accummulated evidence such as this that we feel that we may, with confidence, proceed; it is to such accumulated and high authority, as I have recounted, that we feel we may safely defer. And in doing so, there is this great advantage, that, however diversified the authorities I have quoted may be, however much some of them may have differed upon minor points, yet upon that which I have laid down as the great cardinal rule to be observed, all are agreed. Among all there is but one opinion, that, in order to constitute a sound currency of mixed coin and paper, there are three great essential conditions:—*First*, that you should have one single standard of value, whether it be gold or silver; *second*, that the paper shall be at all times convertible into the coin it represents; and, *thirdly*, that a sufficient reserve of bullion shall be maintained in order to provide for that convertibility. Sir, all are agreed in regarding these three conditions as the sheet anchor of a sound currency; and it is upon these conditions that the measure I am about to introduce has been carefully framed. We know, Sir, that nothing that lies in our power can altogether prevent the recurrence of vicissitudes in trade, but we believe that sound and wise laws will, at least, moderate the severity of otherwise unavoidable misfortunes, while bad laws would infallibly aggravate them. Sir, we have done our best in adapting

these great principles to the peculiar circumstances of this country, and now it will become our first duty to give practical effect to the measures which we propose, by the gradual extension to the whole of India of the system I have described, in the confident belief that it will confer advantages of no slight description and will tend to promote the happiness of India by adding to its material properity and wealth.

Mr. Wilson concluded by moving the first reading of a Bill for the introduction of a system of Paper Currency.

Sir Bartle Frere seconded the Motion, which was then put and carried, and the Bill read a first time.

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## APPENDIX XI.

### Memorandum, Statements, and Supplementary Statements on the Placing of Cash Balances on Loan or Deposit, submitted by Mr. Walter Badock, C.S.I., Accountant-General at the India Office.

1. The system of placing surplus cash balances on temporary loan was inherited from the East India Company, having been apparently initiated by a minute of the (Secret) Finance and Home Committee, dated 6th December 1838. The practice has been followed from that time until now. The present procedure follows various orders approved by the Secretary of State in Council in minutes and letters to the Bank of England and to the Broker, for the time being, to the Secretary of State. Copies of the last three letters to the Bank and the Broker are appended (*see* pages 312–4).

*The approved Borrowing List.*

2. Loans on security are made to certain bankers, discount houses, stock-brokers, &c., of high standing, whose names appear on an approved borrowing list (pages 315–6). Admission to that list is obtained by application addressed to the Broker, who communicates the application to the Accountant-General. The necessary enquiries are made by the Chairman of the Finance Committee, this part of the work being regarded as particularly his province in view of the special City knowledge possessed by him. Until recently, if the enquiries have proved satisfactory, the name of the applicant firm has been temporarily accepted by him, and he has also intimated to the Accountant-General any limit to be imposed on the amount to be advanced to the firm. The full Borrowing List showing the limits imposed has been submitted quarterly to the Finance Committee. The present practice, however, is to lay the applications, with such information as can be obtained, before the Finance Committee and the Secretary of State in Council; whose approval is signified before any loan is made. The full Borrowing List is submitted quarterly to the Secretary of State in Council as before.

*Amount and Period of Loans.*

3. Loans are made in sums of 50,000*l.* or in multiples of 50,000*l.* The usual periods are from three to five weeks, or occasionally six weeks, according to the Accountant-General's calculations as to the term within those limits for which the money can conveniently be spared.

4. In fixing the period, the Accountant-General is guided by the fact that the weekly sales of Council Bills, which are the main source of the money in charge of the India Office, may at any time be reduced to a small figure if the exchange shows a tendency to fall away, or may even cease altogether, as has happened more than once; also that payment for the Bills sold on or after a

Wednesday may be postponed at the option of the purchaser to any day up to the following Tuesday. Similarly, receipts in respect of issues of Government Stock, or of new railway capital which may have been estimated in the Budget, and which form the second important head of receipts, cannot be relied upon as certainly available on any specific date until the issue has actually taken place, and such issues are dependent on market conditions, of which a forecast cannot be made with certainty. On the other hand, the Government of India have very large commitments for interest, annuities in purchase of railways, pay, pensions, &c., in this country, which have to be met on specific dates, and have also very large payments to make for stores for India, advances to railway companies, and other miscellaneous services, the dates for payment of which cannot be accurately foreseen. To provide for payments in the immediate future, therefore, dependence is placed on a sufficiency of loans, arranged to mature on each business day of the year. It is not the practice to lend for as long as six weeks, even if a higher rate of interest might be obtained by so doing, until all probable requirements in the interval have been fully provided for. Under this system, therefore, the whole balance, except the deposits referred to hereafter, can be made available in not more than six weeks.

*Securities authorised for Acceptance.*

5. India Debentures, India Bonds, and Guaranteed Debentures of the several Indian Railway Companies, are taken at their par value.

Treasury Bills, Exchequer Bills, Exchequer Bonds, India Sterling Bills, Metropolitan Water Board Bills, and London County Bills are accepted at their market value, instead of their nominal amount.

The following securities are accepted at their minimum market value, with a cover of 5 per cent., the cover being replaced if the value of the security falls during the currency of the loan:—

Any of the Parliamentary Stocks or Annuities of the United Kingdom.
India 3½ per cent., 3 per cent. or 2½ per cent. Stock, and Stock Certificates.
India Enfaced Rupee Paper.
Fully-paid Debenture Scrip of the Indian Guaranteed Railway Companies.
Any securities, the interest on which is, or shall be, guaranteed by Parliament.
Metropolitan Consolidated Stocks and Stock Certificates.
Metropolitan Police 3 per cent. Debenture Stock.
Metropolitan Water Board "B" Stock, and Stock Certificates.
London County Consolidated Stocks, Stock Certificates and Scrip.
Corporation of London Debentures.
Bonds or Bills of Colonial Governments that have observed the conditions prescribed in the Colonial Stock Act 1900, 63 & 64 Vict. c 62, and of British Municipalities with a population of 500,000 or upwards (at present Birmingham, Liverpool, Manchester, and Glasgow), provided that in each case there is an obligation to repay the principal of the bond or bill within a period not exceeding five years from the date on which the loan is granted. (*See* letters dated 15th April 1913 on page 314.)

Statement No. 1 is appended classifying the securities held in respect of loans on 31st March, 30th June, 30th September, and 31st December 1912, and on 31st March 1913.

*Instructions to Broker.*

6. The Accountant-General informs the Broker daily of the amount of loans that may be renewed on fresh terms, of the amount of new loans that may be made, or of the amount of loans that must be called. He also furnishes the dates for the maturity of the renewals, and new loans. The Broker is responsible for obtaining the best possible rate of interest under the conditions assigned to him, viz.:—

(1) That he is limited to certain dates.
(2) That his range of clients is limited to firms on the approved Borrowing List.
(3) That he should only accept certain specified securities of a very high class, already enumerated.

7. In any case of difficulty as to interest, the Broker obtains the advice of the Chairman of the Finance Committee. The Broker's remuneration for this work has, since 1888, been a percentage on interest earned in each financial year. Until 1st July 1911 a commission of 5 per cent. on interest earned on loans on security was paid, and one per cent. on interest on deposits with banks. But the terms were then reconsidered by the Secretary of State in Council, and a new arrangement was made by which $2\frac{1}{2}$ per cent. on interest earned on loans on security is paid up to a maximum of 5,000*l.* in any financial year, and $1\frac{1}{4}$ per cent. thereafter, one per cent. on interest on deposits with banks being payable as heretofore. The Broker has thus every inducement to obtain the best possible terms for India Office loans.

8. I append Statement No. 2 showing for the past 20 years the gross interest earned on short loans of Treasury and Gold Standard Reserve Balances, the Broker's commission and the net interest.

*Method of Payment of Loans.*

9. The cheque, termed a "write-off," which authorises the transfer of the amount of each loan to the account of Mr. Horace H. Scott, the Broker, at the Bank of England, and which is signed and countersigned in accordance with the provisions of 22 and 23 Vict., c. 41, s. 3, is worded as follows:—

> "Credit Mr. Horace H. Scott, either upon the recognised Securities being transferred to the Stock Account of the Secretary of State in Council of India, or upon the receipt of such Securities to be held by the Bank for account of the Secretary of State in Council of India."

10. Consequently the Bank of England does not place the amount of the loan to the account of Mr. Scott until it is in possession of the requisite securities on behalf of the Secretary of State, which are examined by the Bank in accordance with standing instructions received from this Office. (*See* letters on pages 312–14.) As evidence of the transfer of stock to the Stock Account of the Secretary of State in Council of India (constituted under 21 and 22 Vict., c. 106, s. 45), Mr. Scott transmits to the Accountant-General, together with the agreement for the loan, signed by the borrower, stock receipts for the amount of stock specified in the agreement. The Form of Agreement in use was originally drawn up by the Legal Adviser to this Office, and has, with minor alterations approved by him, been in the same form since 1861. A copy is appended (*see* pages 314–15).

11. Securities transferable by delivery are entered by the Bank of England in the Secretary of State's Security Pass Book, which is obtained from the Bank on the morning following each loan, and is examined in the Accountant-General's Department.

12. When a loan is paid off, the stock that has been transferred to the Secretary of State's account as security is re-transferred "into such names and in such amounts as Mr. Horace H. Scott, the Broker, may direct" (*i.e.*, on account of the borrowers), under the General Letter of Attorney granted to the Bank under the provisions of 21 and 22 Vict., c. 106, s. 47. The Bank acts under the Power of Attorney upon a direction prepared by the Accountant-General and signed by two Members of Council, and countersigned by the Under Secretary or Assistant Under Secretary of State.

*Audit.*

13. On the last day of each month, the Bank of England transmits to the Auditor of the Home Accounts a statement showing the amount of Stock of each description standing in the Secretary of State's account, and the amount of bearer securities held by the Bank on behalf of the Secretary of State. Every agreement with a borrower is shown to the Auditor, and the accuracy of all transactions arising out of it is tested in his Department.

*Deposits.*

14. It is found that the Broker is usually unable to lend on security to approved borrowers on the existing borrowing list a larger sum than from 10,000,000*l.* to 11,000,000*l.*, and in 1909, 1910, 1911, and portion of 1912, the surplus balance available in excess of that amount was placed on deposit with certain London banks by the Broker, after consultation in each case with the Chairman of the Finance Committee. In such cases, the deposit was usually for a period not exceeding two months, but sums lent in this way on account of the Gold Standard Reserve were sometimes placed for three months, if it seemed advantageous to do so, for it was not considered probable that they would be required before the expiration of that period. The balances were, however, so largely reduced in the summer and autumn of 1912 by the purchases of silver and the discharge of temporary debt that deposits as they matured were all called in, the last having been called on 21st December.

*Reliability of System.*

15. It may be mentioned that, whereas in the last twenty years the interest earned on short loans and deposits has amounted to 2,687,015*l.* (*see* Statement No. 2), and in recent years the number of transactions has averaged 1,500 a year, excluding exchanges of stock, the sums lent have always been available, with the interest, on the dates specified in the agreement, with two exceptions only; these were cases of firms holding loans of 50,000*l.* each. In one case the whole of the principal money, and the interest due, were recovered; in the other, a small loss of principal was counterbalanced by the high rate of interest on securities held until realisation.

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## LAST THREE INSTRUCTIONS TO BANK OF ENGLAND AND TO THE BROKER.

India Office, Whitehall, S.W.,
16th June 1893.

Gentlemen,

The attention of the Secretary of State for India in Council has been drawn to the circumstance that the list, furnished to you in the letter from this Office dated the 25th February 1881, of the securities which may be accepted in respect of loans made on his behalf by Mr. Scott, the broker to this Office, requires modification.

I am accordingly directed to acquaint you that Exchequer Bills, Exchequer Bonds, Treasury Bills, India Debentures, and Guaranteed Debentures of the several Indian Railway Companies, may be accepted at their par value; and the following securities at their minimum market value with a cover of five per cent. viz:—

Any of the Parliamentary Stocks or Annuities of the United Kingdom.
India 3½ or 3 per cent. Stock.
India Enfaced Rupee Paper.
Any Securities the Interest of which is or shall be guaranteed by Parliament.
Consolidated Stock created by the Metropolitan Board of Works, or by the London County Council, or Debenture Stock created by the Receiver for the Metropolitan Police District.

I am,
Gentlemen,
Your obedient Servant,
A. GODLEY.

The Governor and Company of the Bank of England, E.C.

India Office, Whitehall, S.W.,
16th June 1893.

Sir,

I am directed by the Secretary of State for India to transmit to you a copy of a letter which has this day been sent to the Governor and Company of the Bank of England, regarding the securities which may be accepted in respect of loans made on behalf of this Office.

You will observe that in that letter it is stated that Treasury Bills may be accepted at their par value, but I have to point out that this is not intended to interfere with the practice of recent years, according to which you have accepted them at their market value only, instead of their nominal amount, when their unexpired period has seemed to you to call for it.

I am,
Sir,
Your obedient Servant,
A. GODLEY.

Willie A. W. Scott, Esq.,
57, Old Broad Street, E.C.

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India Office,
26th February 1913.

Gentlemen,

The attention of the Secretary of State for India in Council has been drawn to the circumstance that the list furnished to you in the letter from this Office dated the 16th June 1893, of the securities which may be accepted in respect of loans made on his behalf by the broker to this Office, requires modification.

I am accordingly directed to acquaint you that India Bonds, India Debentures (when any are existent), and Guaranteed Debentures of the several Indian Railway Companies may be accepted at their par value. Treasury Bills, Exchequer Bills, India Sterling Bills, Metropolitan Water Board Bills, Exchequer Bonds, and London County Bills may be accepted at their market value.

The following Securities may be accepted at their minimum market value, with a cover of 5 per cent., viz.:—

Any of the Parliamentary Stocks or Annuities of the United Kingdom.
India 3½, 3, or 2½ per cent. Stock and Certificates.
India Enfaced Rupee Paper.
Guaranteed Debenture Scrip (fully paid) of Indian Railway Companies.
Any Securities the interest of which is or shall be guaranteed by Parliament.
Metropolitan Consolidated Stocks and Certificates.
Metropolitan Water Board "B" Stock and Certificates.
Metropolitan Police 3 per cent. Debenture Stock.
London County Consolidated Stocks, Certificates, and Scrip.
Corporation of London Debentures.

I am, Gentlemen,
Your obedient Servant,
T. W. HOLDERNESS.

The Governor and Company of
the Bank of England.

India Office,
26th February 1913.

Sir,

I am directed by the Secretary of State for India in Council to transmit to you for your guidance a copy of a letter which has this day been sent to the Governor and Company of the Bank of England regarding the securities which may be accepted in respect of loans made on behalf of this Office.

I am, Sir,
Your obedient Servant,
T. W. HOLDERNESS.

Horace H. Scott, Esq.

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India Office,
15th April 1913.

Gentlemen,

In continuation of the letter from this office dated 26th February 1913 A.G., I am directed to inform you that the Secretary of State for India in Council has added the following securities to the list of those which may be accepted against loans granted on his behalf by the broker to this office; bonds or bills of Colonial Governments that have observed the conditions prescribed in the Colonial Stock Act, 1900, 63 and 64 Vict. c. 62, and of British Municipalities with a population of *500,000 or upwards, provided that in each case there is an obligation to repay the principal of the bond or bill within a period not exceeding five years from the date on which the loan is granted. A margin of 5 per cent. over the market value should be required in the case of the above classes of security.

* At present Birmingham, Liverpool, Manchester, Glasgow.

I am, Gentlemen,
Your obedient Servant,
LIONEL ABRAHAMS.

The Governor and Company of
the Bank of England.

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India Office,
15th April 1913.

Sir,

I am directed to acknowledge the receipt of your letter of the 26th February 1913, on the subject of enlarging the classes of securities which may be accepted as securities for loans, and in reply to enclose for your guidance a copy of a letter which has this day been addressed to the Governor and Company of the Bank of England.

I am, Sir,
Your obedient Servant,
LIONEL ABRAHAMS.

Horace H. Scott, Esq.

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Sixpenny Embossed Stamp.

COPY OF FORM OF AGREEMENT FOR LOAN.

LONDON,

_____ 191__.

To the Right Honourable

The Secretary of State in Council of India.

_____request that you will advance to_____the sum of _____ pounds on the under-mentioned Securities or any other Securities which by consent may be substituted therefor, which Advance_____engage to repay on the_____ together with Interest at the rate of

£_____ _____per Cent. per Annum. In case the said Securities should not be redeemed on the said _____, _____ hereby authorize you to sell the same, and, so far as the proceeds of sale will allow, to repay your Advance thereon with Interest; and_____ further engage that in the event of any of the said Securities upon which a cover of 5 per Cent. has been or may be given falling in value before the repayment of this Loan to an extent which shall render their value less than 5 per Cent. above the amount advanced against them _____will forthwith, on application on your part, add to the Securities so as to maintain the stipulated cover of 5 per Cent., and in default of_____ so doing_____hereby authorize you to sell immediately all the Securities accepted in respect of this Advance, and to repay the Advance with all Interest then due, so far as the proceeds of sale will allow; and_____ hereby undertake to repay any deficiency which the proceeds of sale may fail to discharge.

_____

The Securities above referred to are

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*N.B.*—In consequence of the decision of the Judicial Committee of the Privy Council in the matter of Sir Stuart Samuel's seat in Parliament the following note is now printed on forms of agreement for loans:—

The attention of firms applying for advances is drawn to the following extract from 22 George III., Chapter 45, Section 10: "In every such contract, agreement or "commission [that is, in every contract, agreement or commission, for or on account of, "the public service] to be made, entered into or accepted as aforesaid, there shall be "inserted an express condition that no Member of the House of Commons be admitted "to any share or part of such contract, agreement or commission or to any benefit to "arise therefrom." The Statute does not apply to contracts, &c., entered into by incor-"porated trading companies in their corporate capacity (*see* Section 3).

FIRMS ON THE BORROWING LIST APPROVED BY THE SECRETARY OF STATE IN COUNCIL ON 31ST MARCH 1913.

Alexanders and Company, Limited.
Allen, A. J., and Son.
Allen, Harvey and Ross.
Anglo-Egyptian Bank, Limited.
Anglo-Foreign Banking Company, Limited.
Baker, Duncombe, and Company, Limited.
Barclay and Company, Limited.
Biedermann, A., and Company.
Blydenstein, B. W., and Company.
Booth and Partridge.
Bourke, Cuthbertson, and Company.

FIRMS ON THE BORROWING LIST APPROVED BY THE SECRETARY OF STATE IN COUNCIL ON 31ST MARCH 1913—*continued.*

Brightwen and Company.
Bristowe and Head.
Capel, J., and Company.
Chartered Bank of India, Australia, and China.
Cohen, Laming, and Company.
Cunliffe, R., Sons, and Company.
Daniell and Daniell.
De Zoete and Gorton.
Eastern Bank, Limited.
Elles, J., and Son.
Francis and Praed.
Gillett Brothers and Company.
Haarbleicher and Schumann.
Halford, W., and Company.
Hohler and Company.
Hong Kong and Shanghai Banking Corporation.
Hopkins and Giles.
Keyser, A., and Company.
King and Foà.
Laurie, Milbank, and Company.
Lazard Brothers and Company.
Lloyd and Norbury.
London County and Westminster Bank, Limited.
London and South-Western Bank, Limited.
Lyon and Tucker.
Matthey, Harrison, and Company.
Mercantile Bank of India, Limited.
Messel, L., and Company.
Mullens, Marshall, and Company.
National Bank, Limited.
National Bank of India, Limited.
National Bank of New Zealand, Limited.
National Discount Company, Limited.
National Provincial Bank of England, Limited.
Panmure Gordon and Company.
Pember and Boyle.
Price Brothers.
Provincial Bank of Ireland, Limited.
Reeves, Whitburn, and Company.
Rowe and Pitman.
Ryder, Mills, and Company.
Samuel Montagu and Company.
Scrimgeour, J. and A.
Sheppards and Company.
Sherwood, H., and Company.
Smith, St. Aubyn, and Company
Steer, Lawford, and Company.
Tomkinson, Brunton, and Company.
Union Discount Company of London, Limited.
Waley and Wilbraham.
Wedd, Jefferson, and Company.

## STATEMENT No. 1.

## Securities held for Loans from Cash Balances on certain dates.

| Description of Security. | 31st March 1912. | 30th June 1912. | 30th September 1912. | 31st December 1912. | 31st March 1913. |
|---|---|---|---|---|---|
| STOCK INSCRIBED ON BOOKS OF BANK OF ENGLAND. | £ | £ | £ | £ | £ |
| Annuities 2½ per cent. Stock | — | 5,000 | — | — | — |
| 2½ per cent. Consolidated Stock | 856,000 | 1,083,700 | 942,700 | 162,500 | 302,500 |
| Corporation of London 3½ per cent. Stock | 10,000 | 10,000 | 10,000 | — | 10,000 |
| Guaranteed 2¾ per cent. Stock | 148,000 | 393,500 | 89,000 | 49,000 | 213,000 |
| „ 3 per cent. Stock | — | 10,000 | — | — | |
| India 3½ per cent. Stock | 173,000 | 244,000 | 219,000 | 10,000 | 85,000 |
| „ 3 per cent. Stock | 114,200 | 163,700 | 195,200 | 100,000 | 197,000 |
| „ 2½ per cent. Stock | 51,000 | 188,000 | 127,000 | 171,000 | 35,000 |
| Local Loans 3 per cent. Stock | 52,000 | 48,000 | 38,000 | — | — |
| London County 3 per cent. Consolidated Stock | 2,000 | 39,000 | — | 15,000 | 15,000 |
| „ County 2½ per cent. Consolidated Stock | 170,000 | 150,000 | 59,000 | 58,000 | 24,000 |
| Metropolitan Consolidated 3 per cent. Stock | 4,000 | — | — | — | — |
| „ Consolidated 2½ per cent. Stock | — | 9,000 | — | — | — |
| „ Water Board "B" 3 per cent. Stock | — | — | 7,000 | — | — |
| Transvaal Government 3 per cent. Guaranteed Stock, 1923/53. | 223,500 | — | — | — | 72,000 |
| Transvaal Government 3 per cent. Guaranteed Stock, 1958. | 133,000 | 214,000 | 68,000 | 44,000 | 23,000 |
| | 1,936,700 | 2,557,900 | 1,754,900 | 609,500 | 976,500 |
| BEARER SECURITIES HELD BY BANK OF ENGLAND. | | | | | |
| Indian Railway Debentures:— | | | | | |
| Assam-Bengal Railway | 485,700 | 621,300 | 681,700 | 636,500 | 582,600 |
| Bengal-Nagpur Railway | 2,243,000 | 1,921,000 | 2,340,000 | 1,742,100 | 1,524,400 |
| Indian Midland Railway | 859,200 | 615,500 | 668,000 | 503,000 | 436,400 |
| Madras Railway | 40,000 | 20,000 | 15,000 | 15,000 | 55,000 |
| Madras and Southern Mahratta Railway | 325,200 | 545,300 | 769,300 | 530,000 | 477,000 |
| Rohilkund and Kumaon Railway | 25,000 | 20,000 | 25,000 | 15,000 | 25,000 |
| South Indian Railway | 445,000 | 425,000 | 755,000 | 765,000 | 586,000 |
| Southern Mahratta Railway | 80,000 | 20,000 | 20,000 | 10,000 | 5,000 |
| Canada Guaranteed Bonds | 6,000 | 1,000 | 14,500 | 46,000 | 47,000 |
| 2½ per cent. Consolidated Stock Certificates | 912,300 | 774,000 | 828,500 | 1,183,500 | 1,166,600 |
| Corporation of London Debentures | 15,000 | 19,000 | 58,000 | 44,000 | 31,000 |
| Corporation of London Stock Certificates | 38,000 | 31,000 | 6,000 | 6,000 | 17,000 |
| Egyptian Guaranteed Bonds | 201,700 | 298,200 | 272,600 | 304,900 | 222,200 |
| Exchequer Bonds | 652,400 | 179,400 | 407,200 | 554,700 | 574,700 |
| Greek Guaranteed Bonds | — | 800 | — | — | — |
| Guaranteed 2¾ per cent. Stock Certificates | 203,700 | 169,000 | 76,900 | 82,200 | 109,200 |
| „ 3 per cent. Stock Certificates | 5,000 | 5,000 | 6,500 | 38,500 | 38,500 |
| India Bills | 338,000 | 92,000 | 55,000 | — | — |
| India Stock Certificates | 1,033,900 | 1,041,300 | 1,102,800 | 1,233,500 | 922,500 |
| India Bonds | 531,400 | 699,400 | 652,600 | 547,300 | 412,300 |
| Local Loans Stock Certificates | 30,000 | 10,000 | 75,300 | 109,100 | 86,000 |
| London County Bills | 29,000 | — | 30,000 | 65,000 | 100,000 |
| London County Stock Certificates | 96,600 | 63,300 | 88,400 | 120,600 | 150,000 |
| Metropolitan Consolidated Stock Certificates | 227,200 | 102,700 | 71,500 | 215,200 | 167,900 |
| Metropolitan Water Board Bills and Stock Certificates | 136,500 | 133,500 | 243,000 | 50,500 | 598,000 |
| Transvaal Government Guaranteed Stock Certificates | 416,500 | 365,000 | 312,000 | 374,000 | 218,100 |
| Treasury Bills | — | — | 102,000 | — | — |
| | 9,376,300 | 8,082,700 | 9,676,800 | 9,191,600 | 8,546,400 |
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| India Rupee Paper | 9,60,000 | 6,62,000 | 14,29,000 | 28,35,000 | 39,87,000 |
| At 1s. 4d | £ 64,000 | £ 44,133 | £ 95,267 | £189,000 | £265,800 |
| Total £ | 11,377,000 | 10,684,733 | 11,526,967 | 9,990,100 | 9,788,700 |
| | Amount of Loans outstanding in respect of which the above Securities were held. | | | | |
| £ | 10,200,000 | 9,400,000 | 10,300,000 | 8,850,000 | 8,650,000 |

## Statement No. 2.

Showing the Gross Amount, and the Amount after deducting the Broker's Commission of, (*a*) Interest realised from the temporary investment of the Cash Balances of the Secretary of State for India, and of (*b*) Interest on Cash placed at short notice from the Balances of the Gold Standard Reserve not invested in Securities.

| Year. | Treasury Balances. | | | | | | Gold Standard Reserve. | | | | | | Total. | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Short Loans. | | | Deposits with Banks. | | | Short Loans. | | | Deposits with Banks. | | | | | |
| | Gross Amount. | Broker's Commission. | Net Amount. | Gross Amount. | Broker's Commission. | Net Amount. | Gross Amount. | Broker's Commission. | Net Amount. | Gross Amount. | Broker's Commission. | Net Amount. | Gross Amount. | Broker's Commission. | Net Amount. |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 1893–94 - | 10,293 | 515 | 9,778 | — | — | — | — | — | — | — | — | — | 10,293 | 515 | 9,778 |
| 1894–95 - | 3,373 | 169 | 3,204 | — | — | — | — | — | — | — | — | — | 3,373 | 169 | 3,204 |
| 1895–96 - | 9,650 | 482 | 9,168 | — | — | — | — | — | — | — | — | — | 9,650 | 482 | 9,168 |
| 1896–97 - | 34,435 | 1,722 | 32,713 | — | — | — | — | — | — | — | — | — | 34,435 | 1,722 | 32,713 |
| 1897–98 - | 20,772 | 1,039 | 19,733 | — | — | — | — | — | — | — | — | — | 20,772 | 1,039 | 19,733 |
| 1898–99 - | 30,562 | 1,528 | 29,034 | — | — | — | — | — | — | — | — | — | 30,562 | 1,528 | 29,034 |
| 1899–1900 - | 51,384 | 2,569 | 48,815 | — | — | — | — | — | — | — | — | — | 51,384 | 2,569 | 48,815 |
| 1900–01 - | 59,114 | 2,955 | 56,159 | — | — | — | — | — | — | — | — | — | 59,114 | 2,955 | 56,159 |
| 1901–02 - | 79,651 | 3,983 | 75,668 | — | — | — | — | — | — | — | — | — | 79,651 | 3,983 | 75,668 |
| 1902–03 - | 145,306 | 7,266 | 138,040 | — | — | — | — | — | — | — | — | — | 145,306 | 7,266 | 138,040 |
| 1903–04 - | 140,038 | 7,002 | 133,036 | — | — | — | — | — | — | — | — | — | 140,038 | 7,002 | 133,036 |
| 1904–05 - | 168,398 | 8,420 | 159,978 | — | — | — | — | — | — | — | — | — | 168,398 | 8,420 | 159,978 |
| 1905–06 - | 218,185 | 10,909 | 207,276 | — | — | — | — | — | — | — | — | — | 218,185 | 10,909 | 207,276 |
| 1906–07 - | 209,656 | 10,361 | 199,295 | — | — | — | — | — | — | — | — | — | 209,656 | 10,361 | 199,295 |
| 1907–08 - | 137,698 | 6,596 | 131,102 | — | — | — | — | — | — | — | — | — | 137,698 | 6,596 | 131,102 |
| 1908–09 - | 49,669 | 2,432 | 47,237 | — | — | — | 1,270 | 64 | 1,206 | — | — | — | 50,939 | 2,496 | 48,443 |
| 1909–10 - | 128,163 | 6,336 | 121,827 | 8,326 | 83 | 8,243 | 8,550 | 428 | 8,122 | 11,640 | 116 | 11,524 | 156,679 | 6,963 | 149,716 |
| 1910–11 - | 254,685 | 12,819 | 241,866 | 122,236 | 1,222 | 121,014 | 6,380 | 234 | 6,146 | 44,844 | 448 | 44,396 | 428,145 | 14,723 | 413,422 |
| 1911–12 - | *51,190<br>198,565 | 2,559<br>4,355 | 242,841 | 134,558 | 1,346 | 133,212 | *162<br>338 | 8<br>7 | 485 | 34,025 | 340 | 33,685 | 418,838 | 8,615 | 410,223 |
| 1912–13 - | 280,335 | 5,908 | 274,427 | 98,730 | 987 | 97,743 | 18,745 | 311 | 18,434 | 21,826 | 218 | 21,608 | 419,636 | 7,424 | 412,212 |
| Total - | 2,281,122 | 99,925 | 2,181,197 | 363,850 | 3,638 | 360,212 | 35,445 | 1,052 | 34,393 | 112,335 | 1,122 | 111,213 | 2,792,752 | †105,737 | 2,687,015 |

* Total to 30th June 1911, after which date the rate of commission was 2½ per cent. up to a maximum of 5,000*l.* in any financial year, and 1¼ per cent. above 5,000*l.*

† Average for 20 years 5,287*l.* per annum.

STATEMENT No. 3 showing the Balance and Cash transactions of the India Office for each day in 1912–13.

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EXPLANATORY NOTE.

**A.**

During part of 1912–13 the India Office balance was held in three divisions, viz.:—

1. Money at Bank of England.
2. Money lent on security to approved borrowers.
3. Money deposited at interest with Banks other than the Bank of England.

During the remainder of the year the balance was held in only two divisions, viz., money at Bank of England and money lent on security to approved borrowers. The change was due to a reduction of the total balance which made it possible to place with the approved borrowers the whole sum available for being lent at interest.

The following statement summarises the daily changes in the amount and form of the balance and the causes to which they were due.

It will be noticed that while the closing balance of each day (column 3) includes money on loan and deposit, the receipts and payments in columns 1 and 2, which account for the difference of the amount of each day's closing balance from that of the preceding day, do not include receipts due to the repayment of loans and deposits or payments due to their grant. The explanation is that the repayment or grant of a loan or deposit affects only the form but not the amount of the closing balance, since it involves merely a transfer from or to the second or third of the divisions shown above to or from the first division (money at Bank of England). The repayments and grants of loans and deposits are therefore shown separately in columns 7 to 10.

**B.**

With reference to column 4 it should be explained that an understanding exists with the Bank of England, believed to date from 1859, that (in order to remunerate the Bank for services for which no direct charge is made, such as the work done in connection with the sale of Council Bills and Telegraphic Transfers) the closing balance of each day shall be not less than 500,000*l.* The fact that the balance at the Bank usually exceeds 500,000*l.*, as it did on each day in 1912–13, is due to the following causes:—

(1.) The Bank requires that exceptionally heavy payments to be made on any day shall be provided for in the balance of the previous evening.

(2.) Council Bills and Telegraphic Transfers sold on any day except Tuesday (when payment is required on the day of purchase) may be made at the option of the purchaser up to 4 o'clock on any day not later than the following Tuesday. The money is usually received at the Bank of England too late to be lent until the following morning. Similarly, the receipt at the Bank of England of money from other Government Departments is usually not known at the India Office until it appears in the Pass Book received there the next morning.

(3.) The practice of granting all loans and deposits in sums of 50,000*l.* or multiples thereof, sometimes causes the balance at the Bank of England to be higher than it would be if sums of less than 50,000*l.* were lent.

(4.) Some reserve in excess of 500,000*l.* must be maintained to meet outstanding warrants, the date of presentation of which cannot accurately be foreseen.

STATEMENT No. 3.

## Showing the Balance and Cash transactions of the India Office for each day in 1912–13.

*(Including transactions of the Gold Standard Reserve, but excluding sums in the hands of Sub-Accountants).*

| Date. | Amount of Closing Balance and transactions affecting it. | | | Form in which Closing Balance was held. | | | Transactions affecting Form but not Amount of Closing Balance. | | | | Rate of Interest obtained on Loans granted and renewed. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Receipts, excluding Loans and Deposits repaid. (1) | Payments, excluding Loans and Deposits granted. (2) | Closing Balance (*i.e.*, Money at Bank of England, on loan, and on deposit with other Banks). (3) | At Bank of England. (4) | On loan. (5) | On deposit with other Banks. (6) | Loans repaid. (7) | Deposits repaid. (8) | Loans granted. (9) | Deposits granted. (10) | (11) |
| **1912.** | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | Per cent. |
| 31st March | — | — | 19,416,692 | 1,351,692 | 10,200,000 | 7,865,000 | — | — | — | — | — |
| Monday, 1st April | 566,784 | 1,392,782 | 18,590,694 | 625,694 | 10,100,000 | 7,865,000 | 300,000 | — | 200,000 | — | 3 |
| Tuesday, 2nd April | 2,458 | 112,052 | 18,481,100 | 566,100 | 10,050,000 | 7,865,000 | 100,000 | — | 50,000 | — | 3 |
| Wednesday, 3rd April | 269,923 | 85,356 | 18,665,667 | 800,667 | 10,000,000 | 7,865,000 | 250,000 | — | 200,000 | — | 3 |
| Thursday, 4th April | 129,989 | 108,188 | 18,687,468 | 1,672,468 | 10,000,000 | 7,015,000 | — | 850,000 | — | — | 3 |
| Saturday, 6th April | 104,257 | 1,341,643 | 17,450,082 | 1,385,082 | 9,750,000 | 6,315,000 | 250,000 | 700,000 | — | — | 3 |
| Tuesday, 9th April | 14,338 | 1,025,778 | 16,438,642 | 573,642 | 9,800,000 | 6,065,000 | 50,000 | 250,000 | 100,000 | — | 3 |
| Wednesday, 10th April | 186,000 | 18,594 | 16,606,048 | 741,048 | 9,800,000 | 6,065,000 | — | — | — | — | 3 |
| Thursday, 11th April | 25,333 | 9,620 | 16,621,761 | 556,761 | 10,000,000 | 6,065,000 | 50,000 | — | 250,000 | — | 3½ |
| Friday, 12th April | 183,836 | 128,444 | 16,677,153 | 562,153 | 10,050,000 | 6,065,000 | 150,000 | — | 200,000 | — | 3¼ |
| Saturday, 13th April | 224 | 23,359 | 16,654,018 | 539,018 | 10,050,000 | 6,065,000 | — | — | — | — | 3¼ |
| Monday, 15th April | 24,670 | 9,105 | 16,669,583 | 554,583 | 10,050,000 | 6,065,000 | 100,000 | — | 100,000 | — | 3¼ |
| Tuesday, 16th April | 9,088 | 173,151 | 16,505,520 | 540,520 | 9,900,000 | 6,065,000 | 200,000 | — | 50,000 | — | 3¼ |
| Wednesday, 17th April | 210,015 | 29,090 | 16,686,445 | 771,445 | 9,850,000 | 6,065,000 | 50,000 | — | — | — | 3 |
| Thursday, 18th April | 69,687 | 48,605 | 16,707,527 | 592,527 | 10,050,000 | 6,065,000 | 250,000 | — | 450,000 | — | 3 |
| Friday, 19th April | 197,259 | 19,873 | 16,884,913 | 569,913 | 10,250,000 | 6,065,000 | 100,000 | — | 300,000 | — | 3 |
| Saturday, 20th April | 7,026 | 27,760 | 16,864,179 | 549,179 | 10,250,000 | 6,065,000 | 50,000 | — | 50,000 | — | 3 |
| Monday, 22nd April | 17,836 | 25,915 | 16,856,100 | 541,100 | 10,250,000 | 6,065,000 | 50,000 | — | 50,000 | — | 3 |
| Tuesday, 23rd April | 2,611 | 12,596 | 16,846,115 | 531,115 | 10,250,000 | 6,065,000 | 150,000 | — | 150,000 | — | 3 |
| Wednesday, 24th April | 316,160 | 30,956 | 17,131,319 | 866,319 | 10,200,000 | 6,065,000 | 50,000 | — | — | — | 2¾ |
| Thursday, 25th April | 167,723 | 62,412 | 17,236,630 | 621,630 | 10,200,000 | 6,415,000 | 50,000 | — | 50,000 | 350,000 | 3 |
| Friday, 26th April | 169,819 | 63,919 | 17,342,530 | 627,530 | 10,300,000 | 6,415,000 | — | — | 100,000 | — | 3 |
| Saturday, 27th April | 15,582 | 6,235 | 17,351,877 | 636,877 | 10,300,000 | 6,415,000 | 100,000 | — | 100,000 | — | 3 |
| Monday, 29th April | 104,820 | 28,115 | 17,428,582 | 613,582 | 10,400,000 | 6,415,000 | 100,000 | — | 200,000 | — | 2¾ |
| Tuesday, 30th April | 22,677 | 2,060 | 17,449,199 | 734,199 | 10,300,000 | 6,415,000 | 200,000 | — | 100,000 | — | 2¾ |
| Wednesday, 1st May | 625,932 | 85,250 | 17,989,881 | 774,881 | 10,300,000 | 6,915,000 | — | — | — | 500,000 | — |
| Thursday, 2nd May | 259,256 | 25,966 | 18,223,171 | 558,171 | 10,300,000 | 7,365,000 | — | 300,000 | — | 750,000 | 2½ |
| Friday, 3rd May | 906,838 | 50,700 | 19,079,309 | 664,309 | 10,300,000 | 8,115,000 | — | — | — | 750,000 | 2½ |
| Saturday, 4th May | 126,786 | 127,960 | 19,078,135 | 563,135 | 10,100,000 | 8,415,000 | 200,000 | — | — | 300,000 | 2½ |
| Monday, 6th May | 17,542 | 10,797 | 19,084,880 | 569,880 | 10,100,000 | 8,415,000 | — | — | — | — | 2½ |
| Tuesday, 7th May | 30,890 | 21,142 | 19,094,628 | 529,628 | 10,150,000 | 8,415,000 | — | — | 50,000 | — | 2½ |
| Wednesday, 8th May | 298,084 | 8,173 | 19,384,539 | 769,539 | 10,200,000 | 8,415,000 | — | — | 50,000 | — | 2½ |
| Thursday, 9th May | 961 | 82,718 | 19,302,782 | 537,782 | 10,350,000 | 8,415,000 | 150,000 | — | 300,000 | — | 2⅜ |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Friday, | 10th May | 312,463 | 81,666 | 19,533,579 | 543,579 | 10,400,000 | 8,590,000 | — | — | 50,000 | 175,000 | 2 3/8 |
| Saturday, | 11th May | 139,651 | 14,547 | 19,658,683 | 568,683 | 10,400,000 | 8,690,000 | — | 50,000 | — | 150,000 | 2 1/4 |
| Monday, | 13th May | 24,888 | 29,814 | 19,653,757 | 613,757 | 10,350,000 | 8,690,000 | 200,000 | — | 150,000 | — | 2 1/2 |
| Tuesday, | 14th May | 59,430 | 25,791 | 19,687,396 | 647,396 | 10,350,000 | 8,690,000 | — | — | — | — | 2 1/2 |
| Wednesday, | 15th May | 221,198 | 464,064 | 19,444,530 | 754,530 | 10,000,000 | 8,690,000 | 400,000 | — | 50,000 | — | 2 1/2 |
| Thursday, | 16th May | 54,081 | 186,249 | 19,312,362 | 622,362 | 10,000,000 | 8,690,000 | 50,000 | — | 50,000 | — | 2 1/2 |
| Friday, | 17th May | 210,023 | 45,828 | 19,476,557 | 586,557 | 10,200,000 | 8,690,000 | — | — | 200,000 | — | 2 1/2 |
| Saturday, | 18th May | 76,998 | 24,142 | 19,529,413 | 539,413 | 10,300,000 | 8,690,000 | — | — | 100,000 | — | 2 1/2 |
| Monday, | 20th May | 2,661 | 10,627 | 19,521,447 | 531,447 | 10,300,000 | 8,690,000 | — | — | — | — | 2 1/2 |
| Tuesday, | 21st May | 36,942 | 4,086 | 19,554,303 | 564,303 | 10,300,000 | 8,690,000 | — | — | — | — | 2 1/2 |
| Wednesday, | 22nd May | 117,181 | 16,124 | 19,655,360 | 665,360 | 10,300,000 | 8,690,000 | 50,000 | — | 50,000 | — | 2 1/2 |
| Thursday, | 23rd May | 203,301 | 101,734 | 19,756,927 | 566,927 | 10,500,000 | 8,690,000 | — | — | 200,000 | — | 2 1/2 |
| Friday, | 24th May | 300,222 | 217,030 | 19,840,119 | 550,119 | 10,600,000 | 8,690,000 | — | — | 100,000 | — | 2 1/2 |
| Saturday, | 25th May | 10,195 | 13,401 | 19,836,913 | 546,913 | 10,600,000 | 8,690,000 | — | — | — | — | 2 1/2 |
| Tuesday, | 28th May | 19,019 | 29,003 | 19,826,929 | 536,929 | 10,600,000 | 8,690,000 | — | — | — | — | 2 1/2 |
| Wednesday, | 29th May | 186,030 | 12,215 | 20,000,744 | 710,744 | 10,600,000 | 8,690,000 | — | — | — | — | 2 7/8 |
| Thursday, | 30th May | 100,746 | 18,931 | 20,082,559 | 792,559 | 10,600,000 | 8,690,000 | 150,000 | — | 150,000 | — | 3 |
| Friday, | 31st May | 152,167 | 184,143 | 20,050,583 | 660,583 | 10,700,000 | 8,690,000 | 50,000 | — | 150,000 | — | 2 3/4 |
| Saturday, | 1st June | 2,822 | 399,854 | 19,653,551 | 613,551 | 10,850,000 | 8,190,000 | — | 500,000 | 150,000 | — | 2 3/4 |
| Monday, | 3rd June | 19,345 | 22,987 | 19,649,909 | 609,909 | 10,850,000 | 8,190,000 | 50,000 | — | 50,000 | — | 2 3/4 |
| Tuesday, | 4th June | 25,761 | 38,572 | 19,637,098 | 597,098 | 10,850,000 | 8,190,000 | — | — | — | — | 2 1/2 |
| Wednesday, | 5th June | 217,166 | 106,412 | 19,747,852 | 757,852 | 10,750,000 | 8,240,000 | 100,000 | — | — | 50,000 | 2 1/2 |
| Thursday, | 6th June | 44,460 | 8,019 | 19,784,293 | 644,293 | 10,900,000 | 8,240,000 | — | — | 150,000 | — | 2 1/2 |
| Friday, | 7th June | 208,994 | 138,594 | 19,854,693 | 564,693 | 11,050,000 | 8,240,000 | — | — | 150,000 | — | 2 1/2 |
| Saturday, | 8th June | 12,708 | 26,325 | 19,841,076 | 551,076 | 11,050,000 | 8,240,000 | — | — | — | — | 2 1/2 |
| Monday, | 10th June | 34,924 | 25,692 | 19,850,308 | 560,308 | 11,050,000 | 8,240,000 | — | — | — | — | 2 1/2 |
| Tuesday, | 11th June | 27,978 | 10,767 | 19,867,519 | 577,519 | 11,050,000 | 8,240,000 | — | — | — | — | 2 1/2 |
| Wednesday, | 12th June | 145,490 | 23,075 | 19,989,934 | 699,934 | 11,050,000 | 8,240,000 | — | — | — | — | 2 1/2 |
| Thursday, | 13th June | 29,100 | 7,666 | 20,011,368 | 721,368 | 11,050,000 | 8,240,000 | 50,000 | — | 50,000 | — | 2 1/2 |
| Friday, | 14th June | 473,893 | 87,371 | 20,397,890 | 2,507,890 | 10,850,000 | 7,040,000 | 200,000 | 1,200,000 | — | — | 2 3/4 |
| Saturday, | 15th June | 69,916 | 2,014,974 | 18,452,832 | 612,832 | 10,800,000 | 7,040,000 | 100,000 | — | 50,000 | — | 2 3/4 |
| Monday, | 17th June | 5,916 | 280,110 | 18,178,638 | 538,638 | 10,600,000 | 7,040,000 | 200,000 | — | — | — | 2 3/4 |
| Tuesday, | 18th June | 33,976 | 14,999 | 18,197,615 | 557,615 | 10,600,000 | 7,040,000 | 50,000 | — | 50,000 | — | 2 3/4 |
| Wednesday, | 19th June | 74,729 | 6,924 | 18,265,420 | 625,420 | 10,600,000 | 7,040,000 | 100,000 | — | 100,000 | — | 2 3/4 |
| Thursday, | 20th June | 2,696 | 122,894 | 18,145,222 | 555,222 | 10,550,000 | 7,040,000 | 150,000 | — | 100,000 | — | 2 3/4 |
| Friday, | 21st June | 219,361 | 207,539 | 18,157,044 | 617,044 | 10,500,000 | 7,040,000 | 100,000 | — | 50,000 | — | 2 3/4 |
| Saturday, | 22nd June | 3,389 | 141,269 | 18,019,164 | 579,164 | 10,400,000 | 7,040,000 | 100,000 | — | — | — | — |
| Monday, | 24th June | 24,857 | 16,192 | 18,027,829 | 587,829 | 10,400,000 | 7,040,000 | 100,000 | — | 100,000 | — | 2 3/4 |
| Tuesday, | 25th June | 27,498 | 114,348 | 17,940,979 | 550,979 | 10,350,000 | 7,040,000 | 50,000 | — | — | — | 2 3/4 |
| Wednesday, | 26th June | 97,733 | 31,949 | 18,006,763 | 716,763 | 10,250,000 | 7,040,000 | 250,000 | — | 150,000 | — | 2 3/4 |
| Thursday, | 27th June | 22,476 | 122,044 | 17,907,195 | 917,195 | 9,950,000 | 7,040,000 | 300,000 | — | — | — | 2 3/4 |
| Friday, | 28th June | 322,525 | 408,556 | 17,821,164 | 1,231,164 | 9,550,000 | 7,040,000 | 400,000 | — | — | — | 2 3/4 |
| Saturday, | 29th June | 18,606 | 704,296 | 17,135,474 | 2,295,474 | 9,400,000 | 5,440,000 | 150,000 | 1,600,000 | — | — | 2 3/4 |
| Carried forward | | 9,477,919 | 11,759,137 | — | — | — | — | 6,300,000 | 5,450,000 | 5,500,000 | 3,025,000 | — |

## Statement No. 3—*(continued)*.

| Date. | Amount of Closing Balance and transactions affecting it. | | | Form in which Closing Balance was held. | | | Transactions affecting Form but not Amount of Closing Balance. | | | | Rate of Interest obtained on Loans granted and renewed. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Receipts, excluding Loans and Deposits repaid. (1) | Payments, excluding Loans and Deposits granted. (2) | Closing Balance (*i.e.*, Money at Bank of England, on loan, and on deposit with other Banks). (3) | At Bank of England. (4) | On loan. (5) | On deposit with other Banks. (6) | Loans repaid. (7) | Deposits repaid. (8) | Loans granted. (9) | Deposits granted. (10) | (11) |
| **1912.** | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | Per cent. |
| Brought forward - | 9,477,919 | 11,759,137 | — | — | — | — | 6,300,000 | 5,450,000 | 5,500,000 | 3,025,000 | — |
| Monday, 1st July - | 24,158 | 1,658,733 | 15,500,899 | **660,899** | 9,400,000 | 5,440,000 | 50,000 | — | 50,000 | — | $2\frac{1}{2}$ |
| Tuesday, 2nd July - | 64,618 | 128,868 | 15,436,649 | **596,649** | 9,400,000 | 5,440,000 | 50,000 | — | 50,000 | — | $2\frac{1}{2}$ |
| Wednesday, 3rd July - | 127,885 | 115,458 | 15,449,076 | **809,076** | 9,200,000 | 5,440,000 | 200,000 | — | — | — | $2\frac{1}{2}$ |
| Thursday, 4th July - | 62,008 | 120,959 | 15,390,125 | **1,915,125** | 9,100,000 | 4,375,000 | 150,000 | 1,065,000 | 50,000 | — | $2\frac{1}{4}$ |
| Friday, 5th July - | 289,803 | 1,550,948 | 14,128,980 | **653,980** | 9,100,000 | 4,375,000 | 50,000 | — | 50,000 | — | $2\frac{1}{4}$ |
| Saturday, 6th July - | 6,669 | 48,613 | 14,087,036 | **612,036** | 9,100,000 | 4,375,000 | — | — | — | — | $2\frac{1}{4}$ |
| Monday, 8th July - | 1,072 | 20,385 | 14,067,723 | **592,723** | 9,100,000 | 4,375,000 | 100,000 | — | 100,000 | — | $2\frac{1}{4}$ |
| Tuesday, 9th July - | 11,544 | 27,163 | 14,052,104 | **577,104** | 9,100,000 | 4,375,000 | 200,000 | — | 200,000 | — | $2\frac{1}{2}$ |
| Wednesday, 10th July - | 41,631 | 26,002 | 14,067,733 | **592,733** | 9,100,000 | 4,375,000 | 100,000 | — | 100,000 | — | $2\frac{1}{2}$ |
| Thursday, 11th July - | 3,740 | 10,565 | 14,060,908 | **585,908** | 9,100,000 | 4,375,000 | 50,000 | — | 50,000 | — | $2\frac{1}{2}$ |
| Friday, 12th July - | 298,634 | 222,682 | 14,136,860 | **561,860** | 9,200,000 | 4,375,000 | 200,000 | — | 300,000 | — | $2\frac{3}{4}$ |
| Saturday, 13th July - | 1,369 | 16,855 | 14,121,374 | **546,374** | 9,200,000 | 4,375,000 | 100,000 | — | 100,000 | — | $2\frac{3}{4}$ |
| Monday, 15th July - | 7,242 | 83,793 | 14,044,823 | **569,823** | 9,100,000 | 4,375,000 | 150,000 | — | 50,000 | — | $2\frac{3}{4}$ |
| Tuesday, 16th July - | 3,712 | 179,573 | 13,868,962 | **543,962** | 8,950,000 | 4,375,000 | 200,000 | — | 50,000 | — | $2\frac{3}{4}$ |
| Wednesday, 17th July - | 37,110 | 14,541 | 13,891,531 | **566,531** | 8,950,000 | 4,375,000 | 100,000 | — | 100,000 | — | $2\frac{3}{4}$ |
| Thursday, 18th July - | 5,601 | 100,952 | 13,796,180 | **571,180** | 8,850,000 | 4,375,000 | 200,000 | — | 100,000 | — | $2\frac{3}{4}$ |
| Friday, 19th July - | 443,448 | 120,709 | 14,118,919 | **693,919** | 9,050,000 | 4,375,000 | 50,000 | — | 250,000 | — | $2\frac{3}{4}$ |
| Saturday, 20th July - | 653 | 19,509 | 14,100,063 | **525,063** | 9,200,000 | 4,375,000 | — | — | 150,000 | — | $2\frac{3}{4}$ |
| Monday, 22nd July - | 7,068 | 15,767 | 14,091,364 | **516,364** | 9,200,000 | 4,375,000 | — | — | — | — | $2\frac{3}{4}$ |
| Tuesday, 23rd July - | 4,090 | 40,610 | 14,054,844 | **529,844** | 9,150,000 | 4,375,000 | 50,000 | — | — | — | $2\frac{3}{4}$ |
| Wednesday, 24th July - | 3,503 | 18,867 | 14,039,480 | **514,480** | 9,150,000 | 4,375,000 | — | — | — | — | $2\frac{3}{4}$ |
| Thursday, 25th July - | 23,052 | 126,367 | 13,936,165 | **561,165** | 9,000,000 | 4,375,000 | 250,000 | — | 100,000 | — | $2\frac{3}{4}$ |
| Friday, 26th July - | 451,723 | 88,758 | 14,299,130 | **674,130** | 9,250,000 | 4,375,000 | — | — | 250,000 | — | $2\frac{3}{4}$ |
| Saturday, 27th July - | 6,947 | 93,782 | 14,212,295 | **587,295** | 9,250,000 | 4,375,000 | 50,000 | — | 50,000 | — | $2\frac{3}{4}$ |
| Monday, 29th July - | 2,588 | 17,948 | 14,196,935 | **571,935** | 9,250,000 | 4,375,000 | — | — | — | — | $2\frac{3}{4}$ |
| Tuesday, 30th July - | 57,311 | 26,371 | 14,227,875 | **602,875** | 9,250,000 | 4,375,000 | 50,000 | — | 50,000 | — | $2\frac{3}{4}$ |
| Wednesday, 31st July - | 7,447 | 16,199 | 14,219,123 | **594,123** | 9,250,000 | 4,375,000 | 150,000 | — | 150,000 | — | $2\frac{3}{4}$ |
| Thursday, 1st August - | 503,721 | 111,603 | 14,611,241 | **586,241** | 9,650,000 | 4,375,000 | 100,000 | — | 500,000 | — | $2\frac{3}{4}$ |
| Friday, 2nd August - | 327,331 | 111,616 | 14,826,956 | **601,956** | 9,750,000 | 4,475,000 | 150,000 | — | 250,000 | 100,000 | $2\frac{3}{4}$ |
| Saturday, 3rd August - | 2,743 | 109,085 | 14,720,614 | **595,614** | 9,650,000 | 4,475,000 | 100,000 | — | — | — | $2\frac{3}{4}$ |
| Tuesday, 6th August - | 1,055 | 124,261 | 14,597,408 | **572,408** | 9,550,000 | 4,475,000 | 200,000 | — | 100,000 | — | $2\frac{1}{2}$ |
| Wednesday, 7th August - | 3,691 | 86,215 | 14,514,884 | **589,884** | 9,450,000 | 4,475,000 | 100,000 | — | — | — | $2\frac{1}{2}$ |
| Thursday, 8th August - | 10,722 | 70,148 | 14,455,458 | **530,458** | 9,450,000 | 4,475,000 | 50,000 | — | 50,000 | — | $2\frac{1}{2}$ |
| Friday, 9th August - | 337,604 | 77,585 | 14,715,477 | **640,477** | 9,600,000 | 4,475,000 | — | — | 150,000 | — | $2\frac{1}{2}$ |
| Saturday, 10th August - | 400,958 | 452,517 | 14,663,918 | **588,918** | 9,600,000 | 4,475,000 | — | — | — | — | $2\frac{1}{2}$ |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Monday, 12th August - | 4,002 | 117,978 | 14,549,942 | 574,942 | 9,500,000 | 4,475,000 | 100,000 | — | — | — | 2½ |
| Tuesday, 13th August - | 1,667 | 43,397 | 14,508,212 | 533,212 | 9,500,000 | 4,475,000 | — | — | — | — | 2½ |
| Wednesday, 14th August - | 41,729 | 20,149 | 14,529,792 | 554,792 | 9,500,000 | 4,475,000 | 100,000 | — | 100,000 | — | 2½ |
| Thursday, 15th August - | 3,588 | 418,449 | 14,114,931 | 589,931 | 9,050,000 | 4,475,000 | 450,000 | — | — | — | 2½ |
| Friday, 16th August - | 341,010 | 247,996 | 14,207,945 | 682,945 | 9,050,000 | 4,475,000 | — | — | — | — | 2½ |
| Saturday, 17th August- | 1,015,454 | 1,034,892 | 14,188,507 | 1,013,507 | 8,800,000 | 4,375,000 | 250,000 | 100,000 | — | — | 2½ |
| Monday, 19th August - | 2,384 | 71,460 | 14,119,431 | 1,244,431 | 8,500,000 | 4,375,000 | 300,000 | — | — | — | 2½ |
| Tuesday, 20th August - | 4,011 | 13,985 | 14,109,457 | 1,584,457 | 8,150,000 | 4,375,000 | 350,000 | — | — | — | 2½ |
| Wednesday, 21st August - | 2,035 | 1,003,472 | *13,108,020 | 583,020 | 8,150,000 | 4,375,000 | 50,000 | — | 50,000 | — | 2½ |
| Thursday, 22nd August - | 3,498 | 16,255 | 13,095,263 | 570,263 | 8,150,000 | 4,375,000 | 100,000 | — | 100,000 | — | 2½ |
| Friday, 23rd August - | 338,724 | 88,154 | 13,345,833 | 570,833 | 8,400,000 | 4,375,000 | 50,000 | — | 300,000 | — | 2½ |
| Saturday, 24th August - | 43 | 33,866 | 13,312,010 | 537,010 | 8,400,000 | 4,375,000 | 50,000 | — | 50,000 | — | 2½ |
| Monday, 26th August - | 2,191 | 22,499 | 13,291,702 | 566,702 | 8,350,000 | 4,375,000 | 50,000 | — | — | — | 2½ |
| Tuesday, 27th August - | 3,880 | 38,414 | 13,257,168 | 532,168 | 8,350,000 | 4,375,000 | — | — | — | — | 2⅝ |
| Wednesday, 28th August - | 1,403 | 39,471 | 13,219,100 | 544,100 | 8,300,000 | 4,375,000 | 150,000 | — | 100,000 | — | 2¾ |
| Thursday, 29th August - | 4,463 | 4,429 | 13,219,134 | 594,134 | 8,250,000 | 4,375,000 | 200,000 | — | 150,000 | — | 3 |
| Friday, 30th August - | 357,558 | 67,288 | 13,509,404 | 684,404 | 8,450,000 | 4,375,000 | 300,000 | — | 500,000 | — | 3 |
| Saturday, 31st August - | 1,075 | 22,886 | 13,487,593 | 662,593 | 8,450,000 | 4,375,000 | 50,000 | — | 50,000 | — | 3 |
| Monday, 2nd Sept. - | 4,424 | 81,816 | 13,410,201 | 585,201 | 8,450,000 | 4,375,000 | 100,000 | — | 100,000 | — | 3 |
| Tuesday, 3rd Sept. - | 75,024 | 31,410 | 13,453,815 | 578,815 | 8,500,000 | 4,375,000 | 150,000 | — | 200,000 | — | 3 |
| Wednesday, 4th Sept. - | 4,165 | 11,327 | 13,446,653 | 571,653 | 8,500,000 | 4,375,000 | 100,000 | — | 100,000 | — | 3 |
| Thursday, 5th Sept. - | 4,132 | 9,742 | 13,441,043 | 566,043 | 8,500,000 | 4,375,000 | — | — | — | — | 2¾ |
| Friday, 6th Sept. - | 300,622 | 75,270 | 13,666,395 | 591,395 | 8,700,000 | 4,375,000 | — | — | 200,000 | — | 2¾ |
| Saturday, 7th Sept. - | 7,719 | 12,705 | 13,661,409 | 586,409 | 8,700,000 | 4,375,000 | 50,000 | — | 50,000 | — | 2¾ |
| Monday, 9th Sept. - | 1,000,691 | 21,965 | *14,640,135 | 565,135 | 8,700,000 | 5,375,000 | 50,000 | — | 50,000 | 1,000,000 | 2¾ |
| Tuesday, 10th Sept. - | 34,872 | 13,850 | 14,661,157 | 586,157 | 8,700,000 | 5,375,000 | 100,000 | — | 100,000 | — | 2¾ |
| Wednesday, 11th Sept. - | 39,168 | 9,796 | 14,690,529 | 565,529 | 8,750,000 | 5,375,000 | 50,000 | — | 100,000 | — | 2¾ |
| Thursday, 12th Sept. - | 47,081 | 25,452 | 14,712,158 | 587,158 | 8,750,000 | 5,375,000 | — | — | — | — | 2¾ |
| Friday, 13th Sept. - | 333,589 | 61,880 | 14,983,867 | 558,867 | 9,050,000 | 5,375,000 | 100,000 | — | 400,000 | — | 2⅝ |
| Saturday, 14th Sept. - | 1,036 | 9,816 | 14,975,087 | 550,087 | 9,050,000 | 5,375,000 | 50,000 | — | 50,000 | — | 2⅝ |
| Monday, 16th Sept. - | 603,941 | 216,346 | 15,362,682 | 587,682 | 9,400,000 | 5,375,000 | 50,000 | — | 400,000 | — | 2⅝ |
| Tuesday, 17th Sept. - | 76,272 | 144,051 | 15,294,903 | 569,903 | 9,350,000 | 5,375,000 | 100,000 | — | 50,000 | — | 2¾ |
| Wednesday, 18th Sept. - | 32,714 | 64,131 | 15,263,486 | 588,486 | 9,300,000 | 5,375,000 | 150,000 | — | 100,000 | — | 2¾ |
| Thursday, 19th Sept. - | 1,782 | 30,326 | 15,234,942 | 559,942 | 9,300,000 | 5,375,000 | — | — | — | — | 2¾ |
| Friday, 20th Sept. - | 344,422 | 116,226 | 15,463,138 | 588,138 | 9,500,000 | 5,375,000 | — | — | 200,000 | — | 2¾ |
| Saturday, 21st Sept. - | 5,612 | 40,512 | 15,428,238 | 553,238 | 9,500,000 | 5,375,000 | — | — | — | — | 2¾ |
| Monday, 23rd Sept. - | 779 | 26,132 | 15,402,885 | 577,885 | 9,450,000 | 5,375,000 | 150,000 | — | 100,000 | — | 2¾ |
| Tuesday, 24th Sept - | 31,541 | 263,808 | 15,170,618 | 545,618 | 9,250,000 | 5,375,000 | 200,000 | — | — | — | 2¾ |
| Wednesday, 25th Sept. - | 1,809 | 48,217 | 15,124,210 | 549,210 | 9,200,000 | 5,375,000 | 50,000 | — | — | — | 2¾ |
| Thursday, 26th Sept. - | 1,771 | 7,052 | 15,118,929 | 593,929 | 9,150,000 | 5,375,000 | 50,000 | — | — | — | 2¾ |
| Friday, 27th Sept. - | 507,268 | 250,949 | 15,375,248 | 700,248 | 9,300,000 | 5,375,000 | 150,000 | — | 300,000 | — | 2¾ |
| Saturday, 28th Sept. - | 1,510,695 | 9,752 | 16,876,191 | 1,201,191 | 10,300,000 | 5,375,000 | — | — | 1,000,000 | — | 2¾ |
| Monday, 30th Sept. - | 6,626 | 18,225 | 16,864,592 | 1,889,592 | 10,300,000 | 4,675,000 | 150,000 | 950,000 | 150,000 | 250,000 | 2¾ |
| Carried forward - | 20,166,840 | 22,718,940 | — | — | — | — | 13,850,000 | 7,565,000 | 13,950,000 | 4,375,000 | — |

* Six months' Treasury Bills for 1,000,000*l.* were bought at a cost of 986,726*l.* from Home Treasury Balances on 21st August as it was then known that the 1,000,000*l.* Bills maturing 9th September held on account of the Gold Standard Reserve would not be replaced by His Majesty's Exchequer. The money received on the 9th September for the maturing Bills reimbursed the Home Treasury.

## Statement No. 3—(*continued*).

| Date. | Amount of Closing Balance and Transactions affecting it. | | | Form in which Closing Balance was held. | | | Transactions affecting Form but not Amount of Closing Balance. | | | | Rate of Interest obtained on Loans granted and renewed. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Receipts, excluding Loans and Deposits repaid. (1) | Payments, excluding Loans and Deposits granted. (2) | Closing Balance (*i.e.*, Money at Bank of England, on loan, and on deposit with other Banks). (3) | At Bank of England. (4) | On loan. (5) | On deposit with other Banks. (6) | Loans repaid. (7) | Deposits repaid. (8) | Loans granted. (9) | Deposits granted. (10) | (11) |
| **1912.** | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | Per cent. |
| Brought forward - | 20,166,840 | 22,718,940 | — | — | — | — | 13,850,000 | 7,565,000 | 13,950,000 | 4,375,000 | — |
| Tuesday, 1st October - | 159,300 | 839,307 | 16,184,585 | **1,209,585** | 10,300,000 | 4,675,000 | 100,000 | — | 100,000 | — | 2½ |
| Wednesday, 2nd October - | 16,837 | 178,351 | 16,023,071 | **1,048,071** | 10,300,000 | 4,675,000 | — | — | — | — | 2½ |
| Thursday, 3rd October - | 3,404 | 466,944 | 15,559,531 | **634,531** | 10,250,000 | 4,675,000 | 50,000 | — | — | — | 2½ |
| Friday, 4th October - | 528,295 | 164,952 | 15,922,874 | **1,897,874** | 9,950,000 | 4,075,000 | 300,000 | 600,000 | — | — | 2½ |
| Saturday, 5th October - | 96,754 | 1,387,604 | 14,632,024 | **1,157,024** | 9,750,000 | 3,725,000 | 200,000 | 400,000 | — | 50,000 | 2½ |
| Monday, 7th October - | 1,964 | 684,652 | 13,949,336 | **674,336** | 9,550,000 | 3,725,000 | 350,000 | — | 150,000 | — | 2½ |
| Tuesday, 8th October - | 8,842 | 303,467 | 13,654,711 | **529,711** | 9,400,000 | 3,725,000 | 200,000 | — | 50,000 | — | 2½ |
| Wednesday, 9th October - | 21,276 | 152,004 | 13,523,983 | **598,983** | 9,200,000 | 3,725,000 | 200,000 | — | — | — | 2½ |
| Thursday, 10th October - | 9,599 | 65,743 | 13,467,839 | **542,839** | 9,200,000 | 3,725,000 | — | — | — | — | 2½ |
| Friday, 11th October - | 379,276 | 71,942 | 13,775,173 | **1,675,173** | 8,550,000 | 3,550,000 | 650,000 | 175,000 | — | — | 2¾ |
| Saturday, 12th October - | 8,432 | 579,961 | 13,203,644 | **3,003,644** | 6,850,000 | 3,350,000 | 1,700,000 | 200,000 | — | — | — |
| Monday, 14th October - | 1,857,869 | 4,264,818 | 10,796,695 | **996,695** | 6,450,000 | 3,350,000 | 400,000 | — | — | — | — |
| Tuesday, 15th October - | 4,820 | 34,903 | 10,766,612 | **966,612** | 6,450,000 | 3,350,000 | — | — | — | — | 3¼ |
| Wednesday, 16th October - | 53,517 | 215,446 | 10,604,683 | **954,683** | 6,300,000 | 3,350,000 | 150,000 | — | — | — | 3¼ |
| Thursday, 17th October - | 4,843 | 17,377 | 10,592,149 | **592,149** | 6,650,000 | 3,350,000 | — | — | 350,000 | — | 3½ |
| Friday, 18th October - | 278,022 | 99,243 | 10,770,928 | **570,928** | 6,850,000 | 3,350,000 | — | — | 200,000 | — | 3½ |
| Saturday, 19th October - | 1,382 | 20,256 | 10,752,054 | **552,054** | 6,850,000 | 3,350,000 | — | — | — | — | 3½ |
| Monday, 21st October - | 53,243 | 6,620 | 10,798,677 | **698,677** | 6,750,000 | 3,350,000 | 100,000 | — | — | — | 3½ |
| Tuesday, 22nd October - | 23,368 | 4,872 | 10,817,173 | **867,173** | 6,600,000 | 3,350,000 | 150,000 | — | — | — | 3¾ |
| Wednesday, 23rd October - | 78,875 | 21,266 | 10,874,782 | **924,782** | 6,600,000 | 3,350,000 | 50,000 | — | 50,000 | — | 3¾ |
| Thursday, 24th October - | 1,953 | 27,424 | 10,849,311 | **899,311** | 6,600,000 | 3,350,000 | 200,000 | — | 200,000 | — | 3¾ |
| Friday, 25th October - | 410,972 | 169,750 | 11,090,533 | **990,533** | 6,750,000 | 3,350,000 | 150,000 | — | 300,000 | — | 4 |
| Saturday, 26th October - | 3,006 | 27,639 | 11,065,900 | **965,900** | 6,750,000 | 3,350,000 | — | — | — | — | 4 |
| Monday, 28th October - | 769 | 14,156 | 11,052,513 | **952,513** | 6,750,000 | 3,350,000 | 50,000 | — | 50,000 | — | 4 |
| Tuesday, 29th October - | 15,462 | 361,425 | 10,706,550 | **856,550** | 6,500,000 | 3,350,000 | 250,000 | — | — | — | 4 |
| Wednesday, 30th October - | 79,250 | 321,202 | 10,464,598 | **614,598** | 6,500,000 | 3,350,000 | 100,000 | — | 100,000 | — | 4½ |
| Thursday, 31st October - | 698 | 141,130 | 10,324,166 | **574,166** | 6,400,000 | 3,350,000 | 100,000 | — | — | — | 4½ |
| Friday, 1st Nov. - | 416,509 | 87,135 | 10,653,540 | **653,540** | 6,650,000 | 3,350,000 | — | — | 250,000 | — | 4¼ |
| Saturday, 2nd Nov. - | 3,931 | 95,735 | 10,561,736 | **561,736** | 6,650,000 | 3,350,000 | — | — | — | — | 4½ |
| Monday, 4th Nov. - | 959 | 294,803 | 10,267,892 | **617,892** | 6,400,000 | 3,250,000 | 250,000 | 100,000 | — | — | — |
| Tuesday, 5th Nov. - | 70,604 | 48,321 | 10,290,175 | **840,175** | 6,200,000 | 3,250,000 | 200,000 | — | — | — | — |
| Wednesday, 6th Nov. - | 78,865 | 42,327 | 10,326,713 | **876,713** | 6,200,000 | 3,250,000 | — | — | — | — | 4¼ |
| Thursday, 7th Nov. - | 8,752 | 45,633 | 10,289,832 | **639,832** | 6,400,000 | 3,250,000 | — | — | 200,000 | — | 4¼ |
| Friday, 8th Nov. - | 450,705 | 192,205 | 10,548,332 | **598,332** | 6,700,000 | 3,250,000 | — | — | 300,000 | — | 4¼ |
| Saturday, 9th Nov. - | 5,656 | 11,022 | 10,542,966 | **1,142,966** | 7,150,000 | 2,250,000 | 50,000 | 1,000,000 | 500,000 | — | 4¼ |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Monday, | 11th Nov. - | 1,012 | 103,674 | 10,440,304 | 790,304 | 7,400,000 | 2,250,000 | 50,000 | — | 300,000 | — | 4 |
| Tuesday, | 12th Nov. - | 16,362 | 281,884 | 10,174,782 | 624,782 | 7,600,000 | 1,950,000 | 100,000 | 300,000 | 300,000 | — | 4 |
| Wednesday, | 13th Nov. - | 79,002 | 49,217 | 10,204,567 | 654,567 | 7,600,000 | 1,950,000 | 100,000 | — | 100,000 | — | 4¼ |
| Thursday, | 14th Nov. - | 2,544 | 114,958 | 10,092,153 | 542,153 | 7,600,000 | 1,950,000 | — | — | — | — | 4¼ |
| Friday, | 15th Nov. - | 2,253,219 | 2,494,547 | 9,850,825 | 650,825 | 7,250,000 | 1,950,000 | 400,000 | — | 50,000 | — | 4¼ |
| Saturday, | 16th Nov. - | 2,629 | 191,837 | 9,661,617 | 661,617 | 7,300,000 | 1,700,000 | — | 250,000 | 50,000 | — | 4¼ |
| Monday, | 18th Nov. - | 590 | 104,809 | 9,557,398 | 557,398 | 7,300,000 | 1,700,000 | — | — | — | — | 4¼ |
| Tuesday, | 19th Nov. - | 68,065 | 73,065 | 9,552,398 | 552,398 | 7,300,000 | 1,700,000 | 100,000 | — | 100,000 | — | 4¼ |
| Wednesday, | 20th Nov. - | 38,308 | 58,183 | 9,532,523 | 582,523 | 7,250,000 | 1,700,000 | 100,000 | — | 50,000 | — | 4¼ |
| Thursday, | 21st Nov. - | 8,264 | 15,210 | 9,525,577 | 575,577 | 7,250,000 | 1,700,000 | — | — | — | — | 4¼ |
| Friday, | 22nd Nov. - | 492,645 | 210,954 | 9,807,268 | 657,268 | 7,450,000 | 1,700,000 | 50,000 | — | 250,000 | — | 4¼ |
| Saturday, | 23rd Nov. - | 1,527 | 108,689 | 9,700,106 | 550,106 | 7,450,000 | 1,700,000 | — | — | — | — | 4¼ |
| Monday, | 25th Nov. - | 3,185 | 123,838 | 9,579,453 | 529,453 | 7,350,000 | 1,700,000 | 100,000 | — | — | — | 4¼ |
| Tuesday, | 26th Nov. - | 12,086 | 69,599 | 9,521,940 | 571,940 | 7,250,000 | 1,700,000 | 100,000 | — | — | — | 4¼ |
| Wednesday, | 27th Nov. - | 121,122 | 13,715 | 9,629,347 | 679,347 | 7,250,000 | 1,700,000 | 50,000 | — | 50,000 | — | 4¼ |
| Thursday, | 28th Nov. - | 2,358 | 7,641 | 9,624,064 | 574,064 | 7,350,000 | 1,700,000 | 200,000 | — | 300,000 | — | 4¼ |
| Friday, | 29th Nov. - | 545,185 | 95,384 | 10,073,865 | 2,173,865 | 7,200,000 | 700,000 | 300,000 | 1,000,000 | 150,000 | — | 4¼ |
| Saturday, | 30th Nov. - | 6,995 | 1,526,204 | 8,554,656 | 754,656 | 7,100,000 | 700,000 | 150,000 | — | 50,000 | — | 4¼ |
| Monday, | 2nd Dec. - | 1,707 | 48,971 | 8,507,392 | 557,392 | 7,250,000 | 700,000 | — | — | 150,000 | — | 4¼ |
| Tuesday, | 3rd Dec. - | 38,218 | 55,897 | 8,489,713 | 539,713 | 7,250,000 | 700,000 | 50,000 | — | 50,000 | — | 4⅛ |
| Wednesday, | 4th Dec. - | 85,146 | 25,398 | 8,549,461 | 599,461 | 7,250,000 | 700,000 | 50,000 | — | 50,000 | — | 4¼ |
| Thursday, | 5th Dec. - | 23,224 | 48,188 | 8,524,497 | 574,497 | 7,300,000 | 650,000 | — | 50,000 | 50,000 | — | 4½ |
| Friday, | 6th Dec. - | 461,069 | 120,960 | 8,864,606 | 614,606 | 7,600,000 | 650,000 | 200,000 | — | 500,000 | — | 4½ |
| Saturday, | 7th Dec. - | 55,143 | 8,715 | 8,911,034 | 611,034 | 7,650,000 | 650,000 | — | — | 50,000 | — | 4½ |
| Monday, | 9th Dec. - | 88,423 | 4,871 | 8,994,586 | 644,586 | 7,700,000 | 650,000 | — | — | 50,000 | — | 4½ |
| Tuesday, | 10th Dec. - | 1,069 | 22,531 | 8,973,124 | 523,124 | 7,800,000 | 650,000 | — | — | 100,000 | — | 4½ |
| Wednesday, | 11th Dec. - | 150,064 | 13,445 | 9,109,743 | 659,743 | 7,800,000 | 650,000 | — | — | — | — | 4½ |
| Thursday, | 12th Dec. - | 53,749 | 16,893 | 9,146,599 | 596,599 | 7,900,000 | 650,000 | — | — | 100,000 | — | 4½ |
| Friday, | 13th Dec. - | 481,498 | 89,838 | 9,538,259 | 538,259 | 8,350,000 | 650,000 | — | — | 450,000 | — | 4½ |
| Saturday, | 14th Dec. - | 1,453 | 15,201 | 9,524,511 | 524,511 | 8,350,000 | 650,000 | — | — | — | — | 4½ |
| Monday, | 16th Dec. - | 46,219 | 227,758 | 9,342,972 | 592,972 | 8,100,000 | 650,000 | 250,000 | — | — | — | 4½ |
| Tuesday, | 17th Dec. - | 3,867 | 30,079 | 9,316,760 | 516,760 | 8,150,000 | 650,000 | — | — | 50,000 | — | 4½ |
| Wednesday, | 18th Dec. - | 467,394 | 18,938 | 9,765,216 | 965,216 | 8,400,000 | 400,000 | 100,000 | 250,000 | 350,000 | — | 4½ |
| Thursday, | 19th Dec. - | 1,386 | 18,823 | 9,747,779 | 647,779 | 8,700,000 | 400,000 | — | — | 300,000 | — | 4½ |
| Friday, | 20th Dec. - | 386,772 | 142,619 | 9,991,932 | 791,932 | 8,800,000 | 400,000 | — | — | 100,000 | — | 4½ |
| Saturday, | 21st Dec. - | 102,971 | 40,923 | 10,053,980 | 803,980 | 9,250,000 | — | — | 400,000 | 450,000 | — | 4½ |
| Monday, | 23rd Dec. - | 24,105 | 22,849 | 10,055,236 | 655,236 | 9,400,000 | — | — | — | 150,000 | — | 4½ |
| Tuesday, | 24th Dec. - | 139,126 | 93,823 | 10,101,039 | 651,039 | 9,450,000 | — | 100,000 | — | 150,000 | — | 4½ |
| Friday, | 27th Dec. - | 720,592 | 199,585 | 10,622,046 | 972,046 | 9,650,000 | — | 50,000 | — | 250,000 | — | 4½ |
| Saturday, | 28th Dec. - | 9,755 | 25,803 | 10,605,998 | 955,998 | 9,650,000 | — | — | — | — | — | 4½ |
| Monday, | 30th Dec. - | 58,146 | 10,282 | 10,653,862 | 1,003,862 | 9,650,000 | — | 100,000 | — | 100,000 | — | 4½ |
| Tuesday, | 31st Dec. - | 18,599 | 22,202 | 10,650,259 | 1,800,259 | 8,850,000 | — | 850,000 | — | 50,000 | — | 4½ |
| Carried forward - - | | 32,379,642 | 41,146,075 | — | — | — | — | 23,350,000 | 12,290,000 | 22,000,000 | 4,425,000 | — |

## Statement No. 3—(*continued.*)

| Date. | Amount of Closing Balance and transactions affecting it. | | | Form in which Closing Balance was held. | | | Transactions affecting Form but not Amount of Closing Balance. | | | | Rate of Interest obtained on Loans granted and renewed. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Receipts, excluding Loans and Deposits repaid. (1) | Payments, excluding Loans and Deposits granted. (2) | Closing Balance (*i.e.*, Money at Bank of England, on loan, and on deposit with other Banks). (3) | At Bank of England. (4) | On loan. (5) | On deposit with other Banks. (6) | Loans repaid (7) | Deposits repaid. (8) | Loans granted. (9) | Deposits granted. (10) | (11) |
| **1913.** | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | Per cent. |
| Brought forward | 32,379,642 | 41,146,075 | — | — | — | — | 23,350,000 | 12,290,000 | 22,000,000 | 4,425,000 | — |
| Wednesday, 1st January | 320,681 | 1,367,489 | 9,603,451 | **803,451** | 8,800,000 | — | 50,000 | — | — | — | 4 |
| Thursday, 2nd January | 28,645 | 167,712 | 9,464,384 | **564,384** | 8,900,000 | — | — | — | 100,000 | — | 4 |
| Friday, 3rd January | 410,245 | 146,088 | 9,728,541 | **828,541** | 8,900,000 | — | — | — | — | — | 4 |
| Saturday, 4th January | 7,853 | 246,445 | 9,489,949 | **1,689,949** | 7,800,000 | — | 1,100,000 | — | — | — | 4 |
| Monday, 6th January | 125,042 | 1,357,091 | 8,257,900 | **707,900** | 7,550,000 | — | 350,000 | — | 100,000 | — | 4 |
| Tuesday, 7th January | 51,139 | 57,021 | 8,252,018 | **552,018** | 7,700,000 | — | 100,000 | — | 250,000 | — | 4 |
| Wednesday, 8th January | 270,792 | 593,603 | 7,929,207 | **529,207** | 7,400,000 | — | 300,000 | — | — | — | 4 |
| Thursday, 9th January | 55,354 | 89,312 | 7,895,249 | **645,249** | 7,250,000 | — | 150,000 | — | — | — | 4 |
| Friday, 10th January | 429,673 | 121,029 | 8,203,893 | **603,893** | 7,600,000 | — | 50,000 | — | 400,000 | — | 4 |
| Saturday, 11th January | 5,625 | 26,529 | 8,182,989 | **582,989** | 7,600,000 | — | — | — | — | — | 4 |
| Monday, 13th January | 34,248 | 87,194 | 8,130,043 | **580,043** | 7,550,000 | — | 50,000 | — | — | — | 4 |
| Tuesday, 14th January | 144,317 | 43,381 | 8,230,979 | **680,979** | 7,550,000 | — | — | — | — | — | 4 |
| Wednesday, 15th January | 215,634 | 86,569 | 8,360,044 | **760,044** | 7,600,000 | — | — | — | 50,000 | — | 4 |
| Thursday, 16th January | 39,254 | 180,365 | 8,218,933 | **618,933** | 7,600,000 | — | 100,000 | — | 100,000 | — | 4 |
| Friday, 17th January | 369,468 | 211,981 | 8,376,420 | **676,420** | 7,700,000 | — | — | — | 100,000 | — | 4¼ |
| Saturday, 18th January | 779 | 60,403 | 8,316,796 | **566,796** | 7,750,000 | — | — | — | 50,000 | — | 4¼ |
| Monday, 20th January | 34,357 | 22,658 | 8,328,495 | **578,495** | 7,750,000 | — | — | — | — | — | 4¼ |
| Tuesday, 21st January | 133,528 | 48,579 | 8,413,444 | **613,444** | 7,800,000 | — | — | — | 50,000 | — | 4¼ |
| Wednesday, 22nd January | 159,374 | 43,447 | 8,529,371 | **679,371** | 7,850,000 | — | 100,000 | — | 150,000 | — | 4½ |
| Thursday, 23rd January | 176,848 | 18,972 | 8,687,247 | **737,247** | 7,950,000 | — | 50,000 | — | 150,000 | — | 4½ |
| Friday. 24th January | 402,823 | 111,536 | 8,978,534 | **578,534** | 8,400,000 | — | 50,000 | — | 500,000 | — | 4½ |
| Saturday, 25th January | 11,369 | 54,407 | 8,935,496 | **535,496** | 8,400,000 | — | — | — | — | — | 4½ |
| Monday, 27th January | 36,523 | 80,006 | 8,892,013 | **592,013** | 8,300,000 | — | 100,000 | — | — | — | 4½ |
| Tuesday, 28th January | 40,264 | 34,161 | 8,898,116 | **548,116** | 8,350,000 | — | — | — | 50,000 | — | 4¾ |
| Wednesday, 29th January | 47,378 | 21,188 | 8,924,306 | **574,306** | 8,350,000 | — | 100,000 | — | 100,000 | — | 4¾ |
| Thursday, 30th January | 192,609 | 29,696 | 9,087,219 | **737,219** | 8,350,000 | — | 50,000 | — | 50,000 | — | 4¾ |
| Friday, 31st January | 177,425 | 266,117 | 8,998,527 | **648,527** | 8,350,000 | — | 50,000 | — | 50,000 | — | 4¾ |
| Saturday, 1st February | 3,735 | 71,073 | 8,931,189 | **531,189** | 8,400,000 | — | 50,000 | — | 100,000 | — | 4½ |
| Monday, 3rd February | 87,326 | 32,031 | 8,986,484 | **636,484** | 8,350,000 | — | 250,000 | — | 200,000 | — | 4½ |
| Tuesday, 4th February | 196,213 | 132,858 | 9,049,839 | **549,839** | 8,500,000 | — | — | — | 150,000 | — | 4½ |
| Wednesday 5th February | 163,002 | 12,060 | 9,200,781 | **700,781** | 8,500,000 | — | — | — | — | — | 4½ |
| Thursday, 6th February | 69,536 | 79,769 | 9,190,548 | **590,548** | 8,600,000 | — | 100,000 | — | 200,000 | — | 4¾ |
| Friday, 7th February | 336,245 | 103,194 | 9,423,599 | **673,599** | 8,750,000 | — | 100,000 | — | 250,000 | — | 4¾ |
| Saturday, 8th February | 13,921 | 23,411 | 9,414,109 | **614,109** | 8,800,000 | — | — | — | 50,000 | — | 4¾ |
| Monday, 10th February | 400,736 | 415,472 | 9,399,373 | **549,373** | 8,850,000 | — | — | — | 50,000 | — | 4¾ |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Tuesday, | 11th February | 192,960 | 22,117 | 9,570,216 | **620,216** | 8,950,000 | — | 50,000 | — | 150,000 | — | 4¾ |
| Wednesday, | 12th February | 487,849 | 17,753 | 10,040,312 | **1,090,312** | 8,950,000 | — | 50,000 | — | 50,000 | — | 4¾ |
| Thursday, | 13th February | 28,225 | 430,934 | 9,637,603 | **687,603** | 8,950,000 | — | 100,000 | — | 100,000 | — | 4¾ |
| Friday, | 14th February | 150,051 | 281,748 | 9,505,906 | **655,906** | 8,850,000 | — | 150,000 | — | 50,000 | — | 4¾ |
| Saturday, | 15th February | 11,294 | 57,083 | 9,460,117 | **610,117** | 8,850,000 | — | 50,000 | — | 50,000 | — | 4½ |
| Monday, | 17th February | 1,014,924 | 1,222,208 | 9,252,833 | **602,833** | 8,650,000 | — | 200,000 | — | — | — | 4½ |
| Tuesday, | 18th February | 16,128 | 42,866 | 9,226,095 | **526,095** | 8,700,000 | — | 50,000 | — | 100,000 | — | 4½ |
| Wednesday, | 19th February | 263,113 | 12,165 | 9,477,043 | **777,043** | 8,700,000 | — | — | — | — | — | 4½ |
| Thursday, | 20th February | 361,751 | 42,843 | 9,795,951 | **895,951** | 8,900,000 | — | — | — | 200,000 | — | 4½ |
| Friday, | 21st February | 1,099,385 | 1,123,864 | 9,771,472 | **671,472** | 9,100,000 | — | — | — | 200,000 | — | 4½ |
| Saturday, | 22nd February | 5,497 | 15,692 | 9,761,277 | **561,277** | 9,200,000 | — | — | — | 100,000 | — | 4½ |
| Monday, | 24th February | 73,167 | 14,660 | 9,819,784 | **619,784** | 9,200,000 | — | 50,000 | — | 50,000 | — | 4½ |
| Tuesday, | 25th February | 176,210 | 12,075 | 9,983,919 | **583,919** | 9,400,000 | — | — | — | 200,000 | — | 4½ |
| Wednesday, | 26th February | 267,012 | 16,481 | 10,234,450 | **834,450** | 9,400,000 | — | — | — | — | — | 4½ |
| Thursday, | 27th February | 188,629 | 16,691 | 10,406,388 | **756,388** | 9,650,000 | — | — | — | 250,000 | — | 4½ |
| Friday, | 28th February | 34,206 | 190,086 | 10,250,508 | **600,508** | 9,650,000 | — | 100,000 | — | 100,000 | — | 4½ |
| Saturday, | 1st March - | 14,257 | 57,431 | 10,207,334 | **557,334** | 9,650,000 | — | — | — | — | — | 4½ |
| Monday, | 3rd March - | 70,320 | 16,576 | 10,261,078 | **611,078** | 9,650,000 | — | — | — | — | — | 4½ |
| Tuesday, | 4th March - | 55,994 | 8,013 | 10,309,059 | **559,059** | 9,750,000 | — | — | — | 100,000 | — | 4½ |
| Wednesday, | 5th March - | 151,863 | 50,088 | 10,410,834 | **660,834** | 9,750,000 | — | — | — | — | — | 4½ |
| Thursday, | 6th March - | 74,337 | 23,017 | 10,462,154 | **712,154** | 9,750,000 | — | 50,000 | — | 50,000 | — | 4½ |
| Friday, | 7th March - | 184,357 | 101,751 | 10,544,760 | **594,760** | 9,950,000 | — | — | — | 200,000 | — | 4½ |
| Saturday, | 8th March - | 4,057 | 62,618 | 10,486,199 | **586,199** | 9,900,000 | — | 50,000 | — | — | — | 4½ |
| Monday, | 10th March - | 31,784 | 36,978 | 10,481,005 | **581,005** | 9,900,000 | — | 100,000 | — | 100,000 | — | 4¾ |
| Tuesday, | 11th March - | 9,712 | 11,999 | 10,478,718 | **578,718** | 9,900,000 | — | 100,000 | — | 100,000 | — | 4¾ |
| Wednesday, | 12th March - | 259,295 | 22,361 | 10,715,652 | **815,652** | 9,900,000 | — | — | — | — | — | 4¾ |
| Thursday, | 13th March - | 32,752 | 34,497 | 10,713,907 | **813,907** | 9,900,000 | — | — | — | — | — | 4¾ |
| Friday, | 14th March - | 32,106 | 191,042 | 10,554,971 | **604,971** | 9,950,000 | — | 100,000 | — | 150,000 | — | 4 1/16 |
| Saturday, | 15th March - | 64,374 | 121,203 | 10,498,142 | **598,142** | 9,900,000 | — | 100,000 | — | 50,000 | — | 4½ |
| Monday, | 17th March - | 1,559 | 208,297 | 10,291,404 | **541,404** | 9,750,000 | — | 250,000 | — | 100,000 | — | 4½ |
| Tuesday, | 18th March - | 2,657 | 81,669 | 10,212,392 | **562,392** | 9,650,000 | — | 100,000 | — | — | — | 4½ |
| Wednesday, | 19th March - | 237,523 | 144,800 | 10,305,115 | **755,115** | 9,550,000 | — | 100,000 | — | — | — | 4½ |
| Thursday, | 20th March - | 107,064 | 37,405 | 10,374,774 | **574,774** | 9,800,000 | — | — | — | 250,000 | — | 4½ |
| Saturday, | 22nd March - | 56,712 | 55,144 | 10,376,342 | **576,342** | 9,800,000 | — | — | — | — | — | 4½ |
| Tuesday, | 25th March - | 28,204 | 39,414 | 10,365,132 | **565,132** | 9,800,000 | — | 50,000 | — | 50,000 | — | 4½ |
| Wednesday, | 26th March - | 308,241 | 432,668 | 10,240,705 | **740,705** | 9,500,000 | — | 300,000 | — | — | — | — |
| Thursday, | 27th March - | 77,895 | 163,155 | 10,155,445 | **605,445** | 9,550,000 | — | — | — | 50,000 | — | 4½ |
| Friday, | 28th March - | 1,234,550 | 1,385,316 | 10,004,679 | **554,679** | 9,450,000 | — | 100,000 | — | — | — | 4½ |
| Saturday, | 29th March - | 30,962 | 290,818 | 9,744,823 | **594,823** | 9,150,000 | — | 300,000 | — | — | — | 4½ |
| Monday, | 31st March - | 20,434 | 19,405 | 9,745,852 | **1,095,852** | 8,650,000 | — | 600,000 | — | 100,000 | — | 4¼ |
| | | 45,033,013 | 54,703,853 | — | — | — | — | 29,700,000 | 12,290,000 | 28,150,000 | 4,425,000 | — |

| | £ |
|---|---|
| Total Cash Receipts, Columns 1, 7, and 8 - | 87,023,013 |
| Total Cash Payments, Columns 2, 9, and 10 - | 87,278,853 |
| Total Cash transactions in 1912-13 - | 174,301,866 |

## SUPPLEMENTARY STATEMENT I.

STATEMENT showing the Average Rate of Interest on Loans to Approved Borrowers in each Month in 1910, 1911, 1912, and 1913 (to 31st May) and the Bank Rate during the corresponding periods.

| Month. | Average Rate based on the prevailing Rate on each day of the Month. | Bank Rate fixed each Thursday in the Month. | | | | |
|---|---|---|---|---|---|---|
| 1910. | Per cent. | Per cent. | Per cent. | Per cent. | Per cent. | Per cent. |
| January | 2·54 | *4 | 4 | 3½ | 3½ | — |
| February | 1·79 | 3½ | 3 | 3 | 3 | — |
| March | 2·85 | 3 | 3 | 4 | 4 | 4 |
| April | 3·62 | 4 | 4 | 4 | 4 | — |
| May | 3·30 | 4 | 4 | 4 | 4 | — |
| June | 2·81 | †3½ | 3 | 3 | 3 | 3 |
| July | 1·49 | 3 | 3 | 3 | 3 | — |
| August | 1·91 | 3 | 3 | 3 | 3 | — |
| September | 2·14 | 3 | 3 | 3 | 3 | 4 |
| October | 3·42 | 4 | 4 | 5 | 5 | — |
| November | 4·74 | 5 | 5 | 5 | 5 | — |
| December | 3·43 | 4½ | 4½ | 4½ | 4½ | 4½ |
| 1911. | | | | | | |
| January | 3·35 | 4½ | 4½ | 4½ | 4 | — |
| February | 2·97 | 4 | 4 | 3½ | 3½ | — |
| March | 2·83 | 3½ | 3 | 3 | 3 | 3 |
| April | 2·34 | 3 | 3 | 3 | 3 | — |
| May | 1·81 | 3 | 3 | 3 | 3 | — |
| June | 1·76 | 3 | 3 | 3 | 3 | 3 |
| July | 1·36 | 3 | 3 | 3 | 3 | — |
| August | 1·61 | 3 | 3 | 3 | 3 | 3 |
| September | 2·29 | 3 | 3 | 4 | 4 | — |
| October | 2·70 | 4 | 4 | 4 | 4 | — |
| November | 2·78 | 4 | 4 | 4 | 4 | 4 |
| December | 3·68 | 4 | 4 | 4 | 4 | — |
| 1912. | | | | | | |
| January | 3·37 | 4 | 4 | 4 | 4 | — |
| February | 3·07 | 4 | 3½ | 3½ | 3½ | 3½ |
| March | 3·19 | 3½ | 3½ | 3½ | 3½ | — |
| April | 3·02 | 3½ | 3½ | 3½ | 3½ | — |
| May | 2·55 | 3½ | 3 | 3 | 3 | 3 |
| June | 2·67 | 3 | 3 | 3 | 3 | — |
| July | 2·62 | 3 | 3 | 3 | 3 | — |
| August | 2·62 | 3 | 3 | 3 | 3 | 4 |
| September | 2·79 | 4 | 4 | 4 | 4 | — |
| October | 3·25 | 4 | 4 | 5 | 5 | 5 |
| November | 4·27 | 5 | 5 | 5 | 5 | — |
| December | 4·47 | 5 | 5 | 5 | 5 | — |
| 1913. | | | | | | |
| January | 4·23 | 5 | 5 | 5 | 5 | 5 |
| February | 4·58 | 5 | 5 | 5 | 5 | — |
| March | 4·53 | 5 | 5 | 5 | 5 | — |
| April | 3·37 | 5 | 5 | 4½ | 4½ | — |
| May | 3·15 | 4½ | 4½ | 4½ | 4½ | 4½ |

* 1st to 5th January, 4½ per cent. † 1st June, 4 per cent.

## SUPPLEMENTARY STATEMENT H.

Showing the Payments to the Bank of England and the Bank of Ireland for remuneration in respect of the under-mentioned Services.

| YEAR. | BANK OF ENGLAND. | | | | | | | | | | | | | | | | | | BANK OF IRELAND. | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Management of Debt. | | | | | | | | | | | | | | | | | | | |
| | India Stocks. | | | | | India Bonds. | | | | Rupee Debt. | | | | | | | | | | |
| | Management. | | | Issue. | | | | | | Management. | | | | | | | | | | |
| | Debt on which calculated.* | Rate. | Charge. | Rate. | Charge. | Management at 100*l.* per million. | Issue at 1,250*l.* per million. | India Sterling Bills. Issue at 200*l.* per million. | India Railway Debenture Stocks Management at 300*l.* per million. | Rate. | Charge. | Assessment of Indian Income Tax at 2*d.* per Rs. 10 deducted. | Conversion of 3 per cent. Rupee Loan at 500*l.* per ten million Rupees. | Preparation and issue of new coupon sheets of Rupee Loan of 1854–55. | Purchase of Silver. $\frac{1}{8}$th per cent. Commission on first 2,000,000*l.* ordered to be purchased in a financial year. Then $\frac{1}{8}$th per cent. for commission and brokerage, of which a moiety only is included below. | Custody of Gold on account of the Paper Currency Reserve at $\frac{1}{32}$nd per cent. per annum. | Total Payments to Bank of England. | Debt on which calculated. | Management at 360*l.* per million. |
| | £ | | £ | | £ | £ | £ | £ | £ | | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 1903–04 | 120,782,190 | 360*l.* per million up to 100,000,000*l.* then 100*l.* per million. | 37,960 | 500*l.* per million. | 750 | — | — | 400 | 1,473 | 300*l.* per ten million Rupees. | 5,497 | 141 | — | — | 5,376 | — | 51,597 | 4,191,465 | 1,509 |
| 1904–05 | 122,999,298 | | 38,144 | | 1,250 | — | — | 200 | 1,473 | | 5,081 | 130 | — | — | 5,626 | — | 51,904 | 4,322,891 | 1,556 |
| 1905–06 | 124,608,127 | | 38,354 | 625*l.* per million. | 1,250 | — | — | — | 1,473 | | 4,999 | 123 | — | — | 6,813 | 11 | 53,023 | 4,557,758 | 1,641 |
| 1906–07 | 133,576,125 | | 39,662 | | 1,250 | — | — | — | 1,473 | | 8,000 | 123 | — | — | 9,830 | 1,703 | 62,041 | 4,995,287 | 1,798 |
| 1907–08 | 139,146,360 | | 41,114 | | 4,375 | — | — | 200 | 1,473 | 400*l.* per ten million Rupees subject to a minimum charge of | 8,000 | 123 | — | — | 4,340 | 1,864 | 61,489 | 5,277,200 | 1,900 |
| 1908–09 | 143,615,482 | | 42,650 | | 6,250 | — | — | 1,200 | 1,473 | | 8,000 | 114 | — | — | — | 1,155 | 60,842 | 5,627,114 | 2,026 |
| 1909–10 | 150,745,563 | 300*l.* per million. | 44,423 | 1,250*l.* per million. | 9,375 | — | — | 1,200 | 1,473 | | 8,000 | 108 | 110 | — | — | 477 | 65,166 | 5,807,710 | 2,091 |
| 1910–11 | 157,837,094 | | 46,753 | | 9,375 | — | 5,000 | 1,000 | 1,473 | | 8,000 | 114 | 31 | 150 | — | 871 | 72,767 | 6,006,601 | 2,162 |
| 1911–12 | 160,933,572 | | 47,805 | | 4,375 | 400 | — | 900 | 1,473 | | 8,000 | 101 | 1 | — | — | 1,484 | 64,539 | 6,175,585 | 2,223 |
| 1912–13 | 163,601,076 | | 48,672 | | 3,750 | 350 | — | — | 1,473 | | 8,000 | 90 | 28 | — | 2,500 | 1,711 | 66,574 | 6,246,616 | 2,249 |

* The cost of the management of a new loan commences from the date of the last instalment.

## SUPPLEMENTARY STATEMENT III.

COMMISSION paid to the Broker to the Secretary of State for India during each of the undermentioned years on temporary investments of the Cash Balances and Purchases and Sales of Stock.

| Year | Temporary investments of Cash Balances. | | Sales of India Stock (c). | Purchases or Sales for Gold Standard Reserve (c). | Purchases or Sales for Paper Currency Reserve (c). | Purchases for Sinking Funds (c). | Sales for Regular Widows' Fund (c). | Total. |
|---|---|---|---|---|---|---|---|---|
| | Short Loans (a). | Deposits with Banks (b). | | | | | | |
| | £ | £ | £ | £ | £ | £ | £ | £ |
| 1893–94 - | 515 | — | 866 | — | — | 63 | — | 1,444 |
| 1894–95 - | 169 | — | — | — | — | 64 | — | 233 |
| 1895–96 - | 482 | — | — | — | — | 63 | — | 545 |
| 1896–97 - | 1,722 | — | — | — | — | 64 | — | 1,786 |
| 1897–98 - | 1,039 | — | — | — | — | 66 | — | 1,105 |
| 1898–99 - | 1,528 | — | — | — | — | 71 | 3 | 1,602 |
| 1899–1900 | 2,569 | — | — | — | — | 77 | 3 | 2,649 |
| 1900–01 - | 2,955 | — | — | — | — | 82 | 3 | 3,040 |
| 1901–02 - | 3,983 | — | 813 | 2,125 | — | 86 | 3 | 7,010 |
| 1902–03 - | 7,266 | — | — | 241 | — | 89 | 3 | 7,599 |
| 1903–04 - | 7,002 | — | — | 1,784 | — | 94 | 4 | 8,884 |
| 1904–05 - | 8,420 | — | — | 515 | — | 98 | 4 | 9,037 |
| 1905–06 - | 10,909 | — | — | 2,310 | 890 | 100 | 4 | 14,213 |
| 1906–07 - | 10,361 | — | — | 239 | 22 | 105 | — | 10,727 |
| 1907–08 - | 6,596 | — | — | 362 | 45 | 113 | 3 | 7,119 |
| 1908–09 - | 2,496 | — | — | 1,856 | 131 | 117 | 3 | 4,603 |
| 1909–10 - | 6,764 | 199 | — | 200 | — | 129 | 4 | 7,296 |
| 1910–11 - | 13,053 | 1,670 | — | 1,507 | — | 146 | — | 16,376 |
| 1911–12 - | 6,929 | 1,686 | — | 183 | 1,021 | 156 | 5 | 9,980 |
| 1912–13 - | 6,219 | 1,205 | — | 326 | — | 206 | 5 | 7,961 |
| | 100,977 | 4,760 | 1,679 | 11,648 | 2,109 | 1,989 | 47 | 123,209 |
| | 105,737 | | 17,472 | | | | | |

(a) To 30th June 1911, five per cent. on interest earned; thenceforward 2½ per cent. up to a maximum of 5,000*l.* in any financial year, and 1½ per cent. above 5,000*l.*

(b) One per cent. on interest earned.

(c) Registered securities, $\frac{1}{16}$th per cent.
Short dated bearer securities maturing within one year or less, $\frac{1}{32}$nd per cent.
Ditto in from two to three years, $\frac{1}{16}$th per cent.
Ditto in more than three years, $\frac{1}{8}$th per cent.

It should be noted that, from 1st July 1911, the total commission to be paid to the Broker on the purchases and sales of securities in any financial year is not to exceed 1,500*l.*

W. B.

# APPENDIX XII.

## MEMORANDUM ON THE AUTHORITY REQUIRED FOR PAYMENTS MADE AT THE INDIA OFFICE, AND THE SYSTEM OF CONTROL EXERCISED IN RESPECT OF THEM, SUBMITTED BY MR. WALTER BADOCK, C.S.I., ACCOUNTANT-GENERAL AT THE INDIA OFFICE.

1. For all payments the approval of the Secretary of State in Council is required in some form.

*Interest on Debt, and Interest guaranteed to the several Indian Railway Companies.*

2. Every Capital Issue by Government and by guaranteed companies, whether in the form of stocks, bonds, or debentures, is effected on terms and conditions authorised by the Secretary of State in Council, and these include the payment of interest at the rate or rates and on the dates prescribed. The claim of the Bank of England or Bank of Ireland, or of the Railway Company, as the case may be, for the payment of interest is closely examined in respect of the amount of principal on which interest is claimed, the rate of interest, the period for which it is payable, and the calculation involved.

*Payments for Issue and Management of Debt.*

3. The annual rates of charge made by the Banks of England and Ireland for the issue and management of the Indian Debt have been approved by the Secretary of State in Council.

They are as follows :—

Bank of England—

India Stocks, Issue Charge: By Tender, 625*l.* per million; at Fixed price, 1,250*l.* per million. Management Charge: While the total Debt is over 125,000,000*l.*, 300*l.* per million per annum; if below 125,000,000*l.*, 360*l.* per million per annum on first 100,000,000*l.*, and 60*l.* per million per annum on remainder.

India Bonds, Issue Charge: 1,250*l* per million; Management Charge, 100*l.* per million per annum.

India Bills, Issue Charge, 200*l.* per million.

Indian Railway Debenture Stocks, the liability for which has been assumed by the Secretary of State, Management Charge, 300*l.* per million per annum.

Indian Railway Debentures, the liability for which has been assumed by the Secretary of State, Management Charge, *Nil.*

Rupee Debt, Management Charge, 400*l.* per crore per annum with a minimum payment of 8,000*l.* per annum.

Bank of Ireland—India Stocks, Management Charge, 360*l.* per million per annum.

The above arrangements regarding Management Charges were entered into in December 1905 and expire on 31st December 1915. The issue charges were fixed in December 1904.

*Payments for Stores procured for India.*

4. Stores for India are procured on requisitions received from the several Governments in India, the indents for which are submitted by the Director-General of Stores for the sanction of the Secretary of State in Council. This sanction constitutes the authority for the requisite payments in respect of them.

5. Tenders for the supply of the stores and for freight thereon are obtained by the Director-General of Stores, and accepted by him or by some other authorized officer, in accordance with the rules laid down by the Secretary of State in Council. All tenders are accepted on behalf of the Secretary of State in Council to whom a weekly list of contracts so made is submitted. A copy of each contract certified by the Director-General of Stores or a responsible officer of his department, is furnished to the Accountant-General for his guidance.

6. The claims of the contractors for payment are prepared in duplicate and received in the first instance by the Director-General of Stores, who transmits them to the Accountant-General with his certificate on the claim that the stores therein enumerated have been inspected by the officers of his department, that the quantities are correct, that they are in every respect fit for the service of the Indian Government, and either that they have been taken into his charge preparatory to being shipped or have been shipped per vessel named to a port in India specified. In the Accountant-General's Department the rates and calculations are examined, and the quantities and the sums charged are recorded on the copy of the Contract, care being taken that the aggregate of the claims passed for payment in respect of a contract correspond therewith.

7. Some stores are manufactured by the War Department specially in compliance with Indian orders, others are procured from the War Department stock, and others are obtained by means of contracts entered into by the War Department on behalf of this Office. Similarly, some stores are obtained from the Admiralty. But in all cases the indents from India have received the sanction of the Secretary of State in Council, and the claims for payment are closely examined in every respect possible.

8. The claims for payment for freight, like those for stores, are prepared in duplicate and are received in the first instance by the Director-General of Stores, who transmits them to the Accountant-General's Department with his certificate that stores of the weights and measurements specified in the claim have been shipped. The rates charged are compared in the Accountant-General's Department with the record of the freight tender or contract, and the calculations are examined, before payment. Four-fifths of the total amount of a freight claim is paid in this country (except that claims of less than 50*l.* are paid in full), and the remaining one-fifth is paid in India, except when shipment is to a few outlying ports, when the one-fifth is paid in England on receipt of the out-turn certificate.

9. The duplicate of each store and freight claim, corrected if need be, is returned to the Director-General of Stores to form the basis of an invoice to be transmitted by him to India.

10. Statements are transmitted to India monthly by the Accountant-General reconciling the sums paid for stores and freight with the invoices despatched to India.

*Payments to Indian Railway Companies.*

11. The Contracts under which payments are made to the several Indian Railway Companies have been approved by, and executed under the authority of, the Secretary of State in Council.

12. The examination of claims for Guaranteed Interest has been explained under the head of Interest on Debt. The claims for payment of the Annuities by means of which several of the Indian Railways have been purchased by the Secretary of State in Council, undergo a similar examination.

13. Indents for stores are received from India by the Boards of Railway Companies, and referred by them to their Consulting Engineers. Tenders for the supply of the stores are then invited by the Boards and considered by them at meetings, at which the Government Director is present. A list of the accepted tenders is entered on the Board Minutes, the approval of the Government Director being specially requested where the tender exceeds the Indian estimate. Tenders for freight are invited by the Boards when stores are ready for shipment, or at such time as may appear most advantageous to the various Companies, and the contracts are duly entered on the Minutes, which also contain sanction to the rates of marine insurance on such stores.

The Board Minutes are forwarded to this Office, and after they have been initialled by the Government Director and the Members of the Public Works Committee of the Council they are forwarded to the Accountant-General's Department where a register is kept of the contracts for stores, freight, &c.

14. When the Contractors deliver the stores and present their claims, these claims, accompanied by the Consulting Engineer's certificates that the goods have been delivered in proper condition and quantities, are submitted to this Office for payment, and care is taken that the quantities and prices accord with the amounts sanctioned by the Board Minutes. Claims for freight and insurance are presented in a similar way, and by means of the bills of lading which accompany the freight claims it is ascertained that the stores supplied have been duly shipped. All bills for stores, freight, &c., contain full details, which are examined and checked.

15. In a subsequent examination of the Companies' books and accounts by officers of the Accountant-General's Department it is ascertained that the amounts issued by this Office to the Companies have been paid over to the Contractors and their receipts obtained. Out-turn certificates received from India are closely examined with a view to ascertaining that the stores purchased have duly reached their destination.

16. Claims for inspection of stores, and bills for stamps, stationery, and other requisites are periodically presented to this Office and paid after examination and submission to Council.

17. Furlough pay and sick pay of employees are issued to Railway Companies in accordance with the Board Minutes and Regulations approved from time to time by the Secretary of State in Council.

18. The salaries of directors and consulting engineers and the cost of office establishments are fixed by the Secretary of State in Council, and any alterations require his sanction.

19. Thus, all payments to the Railway Companies are made upon general or specific authorizations of the Secretary of State in Council; and the proceedings of the Companies are supervised at all stages so as to prevent irregularities. Any disputes upon questions of principle arising out of the terms of arrangement are submitted for the decision of the Secretary of State in Council.

*Periodical Payments to His Majesty's Treasury and other Public Departments.*

20. Payments such as the contribution to the cost of the Eastern Mail Service, and the contribution towards the expenses of His Majesty's Ships in the Indian Seas, are made in accordance with agreements entered into by the Secretary of State in Council.

*Payments to the War Office of Effective and Non-Effective Charges in respect of British Forces serving or having served in India.*

21. At the commencement of each official year an agreement is arrived at between the Secretary of State in Council and the War Office as to the amounts of quarterly advances to be made on this account during the year, subject to adjustment on production of the final accounts. Quarterly payments are made accordingly and subsequently adjusted.

*Pay, Pensions, &c.*

22. Furlough allowance, pay, pensions, and annuities to members and retired members of the Indian services are issued in accordance with the regulations applicable to the several services, which have all been approved by the Secretary of State in Council. An officer arriving in this country from India brings with him a Last Pay Certificate, which shows the rate of pay to which he is entitled and the date to which he has received payment in India. The details of the certificate are subject to careful scrutiny in the Accountant-General's Department, and, if they appear to be in accordance with the regulations, the certificate is accepted as authority for payment. Any payment of this description not in strict accordance with the regulations, or

any advance made in anticipation of the receipt of the proper documents from India, would require the special sanction of the Secretary of State in Council.

23. Grant of pensions in accordance with the regulations is made as regards some classes of pensions by the Government of India or the Government of Madras or Bombay, and as regards other classes by the Secretary of State in Council. Satisfactory documentary evidence of the grant in each case is required in the Accountant-General's Department before payment is made.

24. Widows and children entitled to pensions chargeable on Indian Revenues from one or other of the various Service Funds to which officers subscribe and of which the regulations have been approved by the Secretary of State in Council are admitted to pension by the Director of Funds at this Office.

*Salaries of the India Office.*

25. The salaries of the India Office Establishment have been fixed by the Secretary of State in Council and approved and sanctioned by Orders of the King in Council in accordance with Section 15 of the Government of India Act, 1858.

*Miscellaneous Payments.*

26. When proposed expenditure is submitted for the sanction of the Secretary of State in Council, an estimate is generally furnished of the probable amount involved, and if that estimate of the specific grant made is exceeded, the matter is again brought before the Secretary of State in Council, and a further sanction applied for and obtained before payment of the excess. In cases in which expenditure has been sanctioned without a limit as to its amount, and claims made in respect of it are not governed by regulations prescribed by the Secretary of State in Council, each claim is submitted for the special approval of the Secretary of State in Council prior to payment.

*Purchase of Securities for the Gold Standard Reserve, and Paper Currency Reserve*

27. The Accountant-General advises the Financial Department of dividends available for investment or deposit, of short-dated securities maturing and requiring re-investment, &c. The matter is considered in Finance Committee and by the Secretary of State in Council. The Secretary of State's Broker is generally instructed to take such action as is decided upon, and payments are made to him for purchases approved, either upon the transfer of stock to the Stock Account of the Secretary of State in Council at the Bank of England, or upon the deposit at the Bank of England for account of the Secretary of State of bonds, bills, or debentures.

*Family Remittances, &c.*

28. Payments in this country to the relations and friends of soldiers and other employees serving in India are made under regulations prescribed by the Secretary of State in Council. Estates of deceased officers and others are remitted to this country under regulations so sanctioned.

*Petty Disbursements, &c.*

29. The Under Secretaries of State have been authorised by the Secretary of State in Council to sanction petty disbursements up to a limit of 10*l*. And the Accountant-General and the Director-General of Stores have been so authorised to make disbursements up to a limit of 5*l*.

30. In cases of urgency the Under Secretaries of State occasionally sanction larger payments in anticipation of the payments receiving the approval of the Secretary of State in Council.

*Mode of Payments.*

31. The Secretary of State for India has four accounts at the Bank of England, his "Cash Account," his "Drawing Account," his "Bill Account" and his "Bonds and Debentures paid off Account."

32. Receipts of every description are paid into the "Cash Account," which is drawn upon only by transfers to the other three accounts, signed either by the Accountant-General or by the Deputy Accountant-General or by the Assistant Accountant-General and countersigned by certain clerks in the Department specially authorised by the Secretary of State in Council, in accordance with 22 & 23 Vict. c. 41, s. 3.

33. The "Drawing Account" is supplied from time to time as necessary, generally twice a day, by transfers from the "Cash Account"; and is drawn upon by the Cashier and his assistants, who are officers of the Accountant-General's Department. Each cheque or "write-off" requires two signatures, one of which must be that of a clerk of the Upper Division or a Staff clerk. The Cashier and his assistants never know what balance is at the credit of the "Drawing Account."

34. Bills of Exchange drawn on the Secretary of State, of which there are comparatively few, are accepted by either the Accountant-General or the Deputy Accountant-General or the Assistant Accountant-General, payable out of the Secretary of State's Bill Account, and are advised to the Bank of England by the Cashier. The "Bill Account" is supplied by transfers from the "Cash Account" just sufficient to meet bills falling due.

35. The "Bonds and Debentures paid off" Account is also fed, when bonds or debentures mature, from the Cash Account by writes-off sufficient to cover the liability accrued.

36. The Cashier has a balance of banknotes and cash in the office, generally amounting to 2,000*l.*, which about once a month is, for a few days, increased to 3,000*l.*, to meet a large number of small payments.

37. The Cashier is also authorised to keep a stock of Postal Orders, for the purpose of making a large number of payments each week to families of soldiers in India. The maximum value of the Postal Orders to be held has been fixed at 2,000*l.*

38. The Cashier's authorities for payments are the signatures of certain specified clerks in the branches of the department in which claims are examined, and salaries, pay, pensions, &c., are calculated.

*Audit.*

39. All payments made at this Office are subsequently audited in the department of the Auditor of the Indian Home Accounts, who is an officer appointed by Royal Warrant pursuant to Section 52 of the Act for the better Government of India (21 and 22 Vict., cap. 106).

ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY.

# APPENDICES TO THE INTERIM REPORT

OF

# THE COMMISSIONERS.

## VOL. II.

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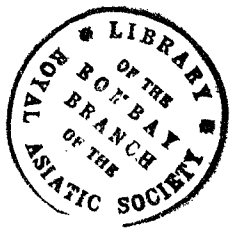


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NOTE ON RESTRICTIONS ON THE BUSINESS OF THE PRESIDENCY BANKS, SUBMITTED BY MR. L. ABRAHAMS, C.B., ASSISTANT UNDER SECRETARY OF STATE FOR INDIA (WITH REFERENCE TO QUESTION 182.)

1. The business of the Presidency Banks of Bengal, Madras, and Bombay is governed by :—

1. The Presidency Banks Act, passed by the Governor-General of India in Council, No. XI. of 1876, as amended by Act V. of 1879, Act XX. of 1899, and Act I. of 1907, passed by the same legislative authority.

2. Bye-laws made under Section 63 of the Act of 1876.

## PRESIDENCY BANKS ACT.

2. The provisions of the Acts that are, or might be regarded as being, restrictive are as follows :—

Sections 24, 26, and 27. The number of directors must be not less than six or more than nine. The two senior directors must go out of office at the annual general meeting, but may be re-elected. The qualification of a director is the holding of unencumbered stock and shares of the Bank to the nominal amount of at least Rs. 10,000 (667*l.*) in his own right. The following persons are, or become, disqualified for the office of director of any of the three Banks :—Directors, promoters, agents, and managers of any other joint stock bank established, or having a branch or agency, or advertised as about to be established, or to have a branch or agency, in British India; salaried officers of Government unless specially authorised by the Government of India; holders of any other office of profit under the Bank, bankrupts, lunatics, directors who are absent from the Board for more than three months. Two persons who are partners of the same mercantile firm, or one of whom is the general agent of, or holds a power of procuration from, the other, or from a mercantile firm of which the other is a partner, may not serve as directors at the same time.

Section 34. No secretary, inspector, manager, or accountant, and (without the previous sanction of the Board) no khazánchi, cashier or shroff in the service of a Presidency Bank may engage in any other banking or commercial business as principal or agent, or act as broker or agent for the sale or purchase of securities.

Section 36. The Banks are authorised to carry on the following kinds of business :—

(*a*) The grant of advances, loans, and credits on the security of (1) stocks, bonds, &c., issued by the British Government, the Secretary of State for India, the Government of India, Guaranteed and Assisted Indian Railway Companies, Municipal and Local bodies of various kinds in India; (2) bullion or other goods deposited with or assigned to the Bank, or of which the documents of title are so deposited or assigned; (3) accepted bills of exchange and promissory notes endorsed by the payees and joint and several promissory notes of two or more persons or firms not connected with each other in general partnership. The Bank of Madras may also lend on Ceylon Government securities, but may not hold

such securities, whether as security for loans or as investments (see *d* below), in excess of the amount of the deposits at its Ceylon branch. Advances and loans may be granted to the Government without specific security.

(*b*) The realising of securities mentioned in (*a*) when occasion arises.

(*bb*) Loans to Courts of Wards for a period of not more than six months on the security of estates under their charge.

(*c*) The drawing, discounting, buying, and selling of bills of exchange and other negotiable securities payable in India or Ceylon.

(*d*) Investing in any of the stocks, bonds, &c., mentioned in (*a*) and selling them when required. But the Banks of Bengal and Bombay may not invest in securities of the Government of Ceylon.

(*e*) The issue of bank-post-bills and letters of credit payable in India or Ceylon, provided that they are not payable to the bearer on demand.

(*f*) The buying and selling of gold and silver.

(*g*) The receiving of money on deposit and current account.

(*h*) The custody of plate, jewels, title deeds, &c.

(*i*) The selling of property which may come to the bank in satisfaction of any of its claims.

(*j*) The transacting of pecuniary agency business on commission.

(*k*) Acting as agent on commission to buy and sell securities, to receive the principal and dividends, and to remit principal and dividends at the risk of the owner by bills of exchange payable either in India or elsewhere.

(*l*) Drawing bills of exchange and granting letters of credit payable out of India for the use of principals for the purpose of the remittances mentioned in (*k*).

(*m*) Buying bills of exchange payable out of India at a usance not exceeding six months to meet such bills or letters of credit.

(*mm*) Borrowing money in India and giving security for such loans.

(*n*) Doing things incidental or subsidiary to the kinds of business mentioned above.

(*o*) Transacting business for the Government.

Section 37. A Presidency Bank may not grant loans or advances :—

(*a*) For more than six months.

(*b*) On the security of stock or shares of the bank.

(*c*) On the security of landed property, subject to the exception mentioned in 36 (*bb*) above.

(*d*) It may not, except on the security of the stock and bonds, &c., mentioned under (1) in the summary of 36 (*a*) above, or of bullion or goods, discount bills for any individual or firm to an amount exceeding in the whole at any time the limit prescribed by the Bank's bye-laws, or lend or advance in any way to any individual or firm an amount exceeding in the whole at any one time the said limit.

(*e*) It may not discount or buy or take as security for an advance, loan, or credit a negotiable instrument of any individual or firm payable in the town or at the place where it is presented for discount, which does not carry on it the several responsibilities of two persons or firms not connected in general partnership.

(*f*) It may not discount, or buy, or take as security for an advance, loan, or credit any negotiable security payable after a longer period than six months.

A Presidency Bank may allow any of its customers to over-draw without security to the extent of such sum not exceeding Rs. 10,000 as may be prescribed by the bye-laws.

Section 42. A Presidency Bank may not establish new branches or agencies outside the Presidency in which it is situate, except with the previous consent of the Government of India. No agency of a Presidency Bank in a Presidency town may grant advances, loans, or credits, or open deposit or current accounts, or discount bills drawn payable in the Presidency in which it is established, or act as agent on commission, or transact any business except as agent of its principal Bank or any of its branches or agencies.

Section 43. A Presidency Bank must submit to the Government of India any information regarding its affairs, and any of its documents that the Government of India may require; and must publish such statements of assets and liabilities as the Government of India may require.

Section 63. A Presidency Bank must make bye-laws (1) as required for the various purposes mentioned in Section 37; (2) regarding the conditions under which advances may be made to directors or officers of the bank or their relatives and connections; (3) as to the particulars to be given in the half-yearly balance sheet. It may also make bye-laws regarding certain other matters, including the remuneration of directors. No bye-law, and no alteration or rescission of a bye-law, is valid unless it is consistent with the provisions of the Act, and has been approved in writing by the Government of India.

## BYE-LAWS.

3. The bye-laws of the Presidency Banks were revised in 1907. The only restrictive ones are those made in pursuance of Section 37 of the Act. The limit specified for the purposes of Section 37, Sub-sections (*d*) and (*e*) is, in the case of the Banks of Bengal and Bombay, Rs. 6,00,000 (40,000*l.*), and in the case of the Bank of Madras, Rs. 5,00,000 (33,000*l.*). The limit of overdrafts to customers without security is fixed by all three Banks at the full amount mentioned in the Act, *i.e.*, Rs. 10,000 (667*l.*)

4. The byelaws also provide (in different language for the three Banks) against a director having any voice in dealing with applications for the grant of accomodation to himself, his partners, co-trustees, employees, and relatives.

# APPENDIX XIV.

## MEMORANDUM ON PROPOSALS FOR THE ESTABLISHMENT OF A STATE BANK FOR INDIA, SUBMITTED BY MR. L. ABRAHAMS, C.B., ASSISTANT UNDER SECRETARY OF STATE FOR INDIA.

## PREFATORY NOTE.

1. This Memorandum has been prepared because I understand that the Commission desire to have before them some information and suggestions from me when considering the question of a State Bank for India.

The Commission are aware, from correspondence already submitted, that a scheme of a somewhat similar nature, viz., for the establishment of a Central Bank of India, was discussed from 1899 to 1901 in correspondence between the Secretary of State and the Government of India. The result of the discussion is shown in the following extract from a Despatch from the Secretary of State to the Government of India, dated 26th July 1901:—

"You have come reluctantly to the conclusion that the circumstances are "unfavourable to the policy of pressing on the Centralisation Scheme at the "present time. This opinion I consider myself bound to accept; but I agree "with your Excellency that it will be distinctly advisable, as soon as may "be practicable, to establish a Central Bank in India, for the reasons given "in your Letter and in Sir Edward Law's able minute; and I request that "this object may be kept in view, and that the scheme may be revived "whenever there is a possibility of its being successfully carried out."

Since this was written the matter has not been further considered by the Secretary of State in Council or by the Government of India.

The present Memorandum is therefore submitted as containing only the result of my own study of the subject, and does not carry any official authority.

Lord Crewe has authorised me to present it because he is satisfied that further consideration at the present time of the question of a State Bank is very desirable; he welcomes the opportunity afforded by the appointment of the Royal Commission, and is anxious that any assistance that can be given by a member of the India Office shall be at the Commission's disposal.

## I.

## HISTORY OF PREVIOUS DISCUSSIONS.

### *Discussion of* 1867.

2. In March 1867, when the old Bank of Bombay was known to have lost a large part of its capital, the Directors of the Bank of Bengal submitted to the Government of India a scheme, drawn up by their Secretary and Treasurer, Mr. G. Dickson, for the amalgamation of the three Presidency Banks into a Central Bank for all India, with a paid-up capital of five crores of rupees and an unpaid capital of the same amount. Mr. Dickson did not propose that the Bank should necessarily be allowed to transact other kinds of business than those previously done by the separate Presidency Banks; but he expressed the hope that the Government of India, which had recently introduced a Government note issue in place of the notes previously issued by the Banks, would return to "sounder views" on this subject. He summarised the advantages of the amalgamation as follows:—"With such a "large capital actually provided, and liable to further calls in case of need, "with an adequate reserve fund in the event of unforeseen losses arising "either from the ordinary business or from political disturbances, I submit "that the proposed united Bank would be equal at all times and under all "circumstances not only to meet the legitimate requirements of commerce, "but by unity of action and under the eye of the supreme Government [*i.e.*, "the Government of India], to control those recurring monetary crises which, "although hitherto more felt in the Bombay Presidency, yet very closely and "intimately affect the interests and position of all. Government would have "an absolute guarantee for the unvarying management of their treasuries "under one controlling power; a certainty of greater economy in the use and "distribution of their balances throughout India; uniform management of the

" public debt under the same safeguards but with enlarged security, and a " powerful agent in aiding them in all their financial measures, not only at " the seat of Government but by combined action throughout the whole " country."

On the question of organisation his proposal was that "Local Boards " would be continued as at present in Bombay and Madras, but the supreme " control and the rules and regulations for the conduct of the business must " rest in, and be laid down by, the Board in Calcutta, *i.e.*, that the same rules " and conditions under which business is carried on here [in Calcutta] must " be strictly adhered to and be conformed to by Bombay and Madras; and " that power to enforce their due observance be specially reserved."

Mr. Dickson's scheme was communicated to the Directors of the Bank of Bombay, by whom it was unanimously approved, and the attitude of the Government of India towards it was encouraging. On 4th June 1867, a resolution in favour of amalgamation was submitted to a special general meeting of the shareholders of the Bank of Bombay. It was opposed, partly on the grounds illustrated by the following extracts from the speech of the Hon. G. Foggo (a member of the firm of Messrs. Forbes & Co., of Bombay): "He considered the true course for the shareholders to pursue, " having regard to their own interests, and saying nothing with regard " to public interests which to them " were of minor importance, was to " throw away the amalgamation scheme " at once, and lay their case before the " Government of Bombay, the Supreme " Government, and the Secretary of " State, asking what assistance would " be given the shareholders towards " recovering the lost capital of the " Bank, and helping them in the recon- " struction of a new Bank of Bombay."* The resolution was carried by 137 to 134. A further meeting was summoned for 12th August 1867, and on 2nd August the Bank of Bombay telegraphed to the Bank of Bengal. " Unless your Bank withdraw the scheme " for amalgamation, the majority of my " Directors feel bound to submit it to " their shareholders on the 12th, but they " cannot hold out any prospect of its " being carried." The Bank of Bengal replied (5th August), " in the absence " of any prospects of the incorporation " of the Banks being carried, the " Directors of this Bank withdraw from " the negotiations."†

* "East India (Bombay Banks)" ordered by the House of Commons to be printed 9th March 1868, page 127.

† A passage on pp. 234–5 of Mr. J. M. Keynes' work on "Indian Currency and Finance," suggesting that the scheme of amalgamation was "smothered" by a "magnificent and empty maxim of political wisdom" uttered by the Secretary of State (Sir S. H. Northcote), appears to need modification, as the remark in question occurs in a Despatch dated 15th February 1868, *i.e.*, six months after the withdrawal of the scheme, and was inserted, not as a maxim of political wisdom, but with the purely practical object of conveying a warning that the special arrangements very reluctantly sanctioned in 1868 between the Government and the new Bank of Bombay, including the holding of shares by the Government and the appointment of a Government Inspector, drew their sole justification from the peculiar circumstances then existing in Bombay (which would have been left without a Bank if the Secretary of State had not waived his objections to these features in the arrangement), and that similar arrangements would probably not be allowed in any larger scheme that might be subsequently inaugurated in normal circumstances.

*Discussion of* 1899–1901.

3. Several of the witnesses before the Indian Currency Committee of 1898–99 gave evidence in favour of the establishment of a Central Bank of India. The fullest statement on the subject was made by Mr. A. de Rothschild in a note (*see* question 11,853) which may be summarised as follows:—

Central Bank to be formed with capital of 14,000,000*l.* (to be held partly in gold and partly in securities) and power to issue notes against the whole of it. If possible the Presidency Banks to be fused with the Central Bank. The latter to hold Government balances; to have the right to import silver for coinage free of duty, and to share in profits of coinage; to take no part in exchange business, but to confine itself to internal operations and to lending to the Government on deficiency bills; to take such precautions for protecting its gold as are taken by the Banks of France and Germany. In the event of the Central Bank's supply of gold running short, the Government to "come to the rescue to the extent of 10,000,000*l.* sterling."

In a note appended to the Report of the Indian Currency Committee of 1898-9, Mr. Hambro called attention to the advantages which would, in his opinion, arise from the establishment of a strong central bank. His note is printed at the beginning of a collection of papers on banking which is being submitted to the Commission (*see* Appendix XV., page 357). It mentions two quite different services to be rendered by the Bank, viz. :—To assist in giving effect to any regulations having the convertibility of the rupee in view, and to expand the banking facilities of India in time of pressure and to curtail them in time of slackness.

It will be seen from the collection of papers that Mr. Hambro's suggestions formed the subject of correspondence beginning with the Secretary of State's Despatch to the Government of India dated 25th July 1899 (page 357), and ending with his Despatch dated 26th July 1901 (page 438); that both the Secretary of State and the Government of India began the discussion with a favourable disposition towards the scheme; that the scheme was dropped as being one with which it was at the time inopportune to proceed; but that its revival at a more favourable time was contemplated. It is scarcely necessary to summarise the correspondence, but it may be convenient to note (*a*) the various classes of business with which it was contemplated, in the course of the discussion, that the Bank would be entrusted, (*b*) the special reasons which led to the temporary abandonment of the scheme.

(*a*) The following list appears to include all that was contemplated at various times with regard to the functions to be assumed by the Bank and the objects to be served by its existence :—

| | |
|---|---|
| Convertibility of the rupee - | Mr. Hambro's note (page 357). |
| Expansion and contraction of supply of loanable capital | Mr. Hambro's note (page 357). |
| Foreign Remittance business | Letter from Government of India dated 24th August 1899 (page 357). |
| Promoting circulation of gold | Letter from Government of India, dated 24th August 1899 (page 357). |
| Management of Paper Currency - - - | Letter from Government of India, dated 24th August 1899 (page 357). |
| Consolidation and concentration of banking facilities in India - - | Mr. Dawkins' speech on 1st Sept. 1899 (pages 358–61). |
| Access to London - - | Mr. Dawkins' speech on 1st Sept. 1899 (pages 358–61). |
| Increase of banking capital | Mr. Dawkins' speech on 5th January 1900 (pages 394–9). |
| Sterling capital - - | Letter from Government of India, dated 18th January 1900, paragraph 13 (page 405). |

This enumeration is perhaps not exhaustive, and its items are not mutually exclusive; but it suffices to show generally the ideas in the minds of those who took part in the discussion. It is important to observe that there appears to have been no systematic consideration of the question of the interdependence of the various items, *i.e.*, how far the undertaking by a Central Bank of one particular kind of business involved the undertaking by it of any other kind or kinds.

(*b*) The reasons that led to the temporary abandonment of the scheme are to be found in the Letter from the Government of India No. 199, dated 13th June 1901 (page 426). They were as follows :—

(1.) Expense, owing in part to the fact that additional capital could not be profitably employed throughout the year.

(2.) "Provincial jealousies"* and personal reasons.

* On this phrase, *see* paragraph 10 below (page 353).

*Recent Discussion.*

4. There has been considerable discussion recently in the press and elsewhere regarding the scheme for a Central Bank, which is now more commonly referred to as a scheme for a State Bank. The following extracts from well known sources show the points of view from which the scheme is regarded by various writers and the advantages expected from it :—

*Extracts from speech by Sir E. H. Holden, Bart., at Annual General Meeting of London City and Midland Bank, on 24th January* 1913 :—

"We are now experiencing the *inflow* of gold to India, but we have before us the more difficult problem of how the gold is to be made to *flow out* from India. Some believe that an outflow can never be brought about on economic lines unless money be made cheaper in India than at present. While money rules for a certain period of the year up to 8 per cent. in India, we cannot expect the Bank Rate in London to be effective in attracting gold from India in the same way as from other countries . . . If a Bank, similar to the Bank of France, were established in India with numerous branches in different parts of the country, and followed up by a greater development of sound banking institutions, then credit would be created by means of loans, discounting and borrowing facilities would be increased, and 8 per cent. bank rates would disappear . . . I hope the Secretary of State for India may be induced to seriously consider the question of appointing without delay a fresh Commission, not only in the interests of this country, but also in the interests of all those countries which are now unable to obtain gold to meet their increasing trade, increasing liabilities and increasing credit. There are serious dangers ahead, and it has become a pressing necessity to provide protection against them."

*Extracts from an article on "A State Bank for India" in the "Times" of 14th March* 1913 :—

"The Presidency Banks remain inadequately capitalised and strictly compartmented and they are incapable of attaining that full development which would be possible if all parts of the country were open to them. They are also debarred by law from raising money in the English market, but obviously a central institution, with substantial capital, should be allowed under the supervision of the India Office to have an agency in London to transact ordinary business, especially business connected with the maintenance of the Gold Standard. There can be no question that a State Bank would have a most salutary effect in securing the confidence of the people with money to invest. India suffers from a vast amount of infructuous capital, which a State Bank would be likely to draw forth in the shape of shares or deposits. Hitherto, the investment of money by deposit in banks has been on a much smaller scale than it ought to be . . . Another great advantage would be a far better utilisation of the capital of the concern than is possible in the case of the three Presidency Banks with their existing limitations. The central institution would have branches in every part of India, and would be able to let the capital flow in the directions where it was most needed. The facilities it would have for financing trade would go far to eliminate the sharp seasonal divergences between discount rates in India, where they range in a course of a year from 3 per cent. to 8 or 9 per cent.. and the adequate capital at disposal would tend materially to bring about a lower average level . . . Given a State Bank with large capital and plenty of resources, the Government could again keep its headquarters balances in bank custody without any apprehension of monetary disturbances in consequence of withdrawals, and, on the other hand, it would be able to depend on the Bank to advance money if the needs of the State momentarily required the assistance."

*Extract from article in* "Times of India," 11*th April* 1913 (*reprinted in* "Indian Currency and Finance" (*Bombay and London*, 1913), *pages* 240–1) :—

"The sole reason that will bear investigation for the promotion of a great State Bank is the necessity of relieving Government of the management of the Gold Standard policy. The opinions of the brothers Rothschild that the internal arrangements of the currency are always better conducted by a bank than by a Government may be said to have been proved in the case of India, for it is impossible to suppose that a bank would have muddled the management of the currency as the home authorities have done. If those who advocate the creation of a State Bank would face the situation squarely by concentrating attention on that aspect of the question, and by working in the direction of combining within the ambit of the proposed Bank the Paper Currency Department and the Gold Standard Reserves as well as the Treasury Balances at home and in India, and the home remittances of Government, more practical results would be likely to ensue than by endeavours to bring about an amalgamation of the Presidency Banks on the plea that more capital is wanted to meet increasing demands for credit and on the problematical advantages of such an amalgamation set forth by *The Times* correspondent. If the cost to Government of the present arrangements *plus* a reasonable share in the future profits of the Paper Currency Department were offered for relieving them of the duties connected with the various financial activities referred to, it would go a long way towards securing the creation of the proposed Bank provided a very large capital was not insisted upon."

## II.

## SUGGESTIONS AS TO THE FORM THAT A SCHEME FOR A STATE BANK SHOULD TAKE.

### *Duties to be entrusted to it.*

5. It will be observed, from the historical retrospect, that there has been a remarkable diversity of views, and no little vagueness, as to the duties that should be entrusted to a State Bank, and the advantages to be expected from so entrusting them. In the absence of a clear statement on these points it is difficult for any individual or body to answer "Yes" or "No" to the question whether the establishment of such a bank is desirable. I therefore venture to submit the following suggestions which have, I think, the one merit of being definite. The suggestions are based on the assumption that a State Bank, if formed at all, will be formed by the amalgamation of the three existing Presidency Banks. Remarks on the advantages and disadvantages of the scheme, and the probability or otherwise of its adoption, are postponed to a later section.

### A.—*To hold as Bankers Government Balances in India.*

It may be assumed that the primary object for which a State Bank would be established would be in order that the Government of India might deposit with it balances in excess of those that it now deposits with the Presidency Banks, and probably in excess of those that under revised arrangements it could prudently deposit with those banks as at present constituted. The chief result looked for from the increased deposits would be a reduction of the average rate of discount in India and of the range of seasonal variation in that rate.

### B.—*Management of Paper Currency.*

The next duty that would be naturally entrusted to a State Bank is one that would be entrusted on account of its close connection with the work of

acting as custodian of a large part of Government Balances. Under present practice the Treasury Balances of the Government of India and the Reserve of the Paper Currency Department are used to supplement one another, to the great advantage of the Government and the public. The working of the system may be illustrated by the following passage from a note by Sir J. Westland on the Management of the Government Balances, dated 20th November 1888, which has already been laid before the Commission: "Our normal currency "reserve of coin we may put down at "six crores of rupees.* This amount is, "of course, by law sacred to the purpose of supporting the currency circula- "tion; we cannot apply it to any treasury purpose. At the same time it is "vastly more than in ordinary times is necessary for the purpose of actual "encashment of notes. It is scattered over the various places from which we "are by law authorised to issue notes. One perfectly legitimate operation of "which we take great advantage is that we depend upon this Currency "Reserve for facilities of rapid remittance. For example, we can make a "remittance of, say, 20 lakhs, at a moment's notice, from Calcutta to Lahore "by simply paying in 20 lakhs to Currency Office at Calcutta and obtaining at "the Currency Office an order upon the Lahore Currency for 20 lakhs to be "paid to treasury there. I think it is not too much to estimate this facility "of remittance at a crore of rupees; that is to say, a balance of eight crores "with this facility of remittance through currency, goes quite as far towards "meeting our liabilities as a balance of nine crores would without this "facility." Most of the figures used by Sir J. Westland in this note written 25 years ago need to be doubled in order to bring his statement up to date; and probably this is true of his estimate of the value of the assistance that the Government Treasury Balances derive from the Paper Currency Reserve under the system of joint management that he describes. If so, any considerable interference with the working of the system (such as would almost certainly result from the transfer of the greater part of the Government Treasury Balances to a State Bank unaccompanied by a transfer of the management of the Paper Currency Department) would be inconvenient to the public and to the Government, and seriously uneconomical. It may therefore be assumed that, if a State Bank held the greater part of the Treasury Balances, it would also be entrusted with the management of the Paper Currency.

* This figure is now obsolete.

### *C.—Participation in the sale of Drafts on India for meeting the Secretary of State's requirements.*

The form in which the Paper Currency Reserve from time to time stands, and consequently the work of managing the Paper Currency system as a whole, are considerably affected by the manner in which the sale of Bills of Exchange and Telegraphic Transfers on India needed to provide for India Office disbursements is conducted. *E.g.*, if such remittances were sold very sparingly, the importation to India of sovereigns (to be tendered to the Government in exchange for rupees and to be ultimately located in the Paper Currency Reserve*) would probably take place on so large a scale as to be embarrassing to the administration responsible for the management of the Paper Currency. Conversely, if remittances were sold with great freedom and at a comparatively low price, the importation of sovereigns to India might cease and the stock held in the Paper Currency Reserve might be exhausted. It may be taken for granted that the desirability of avoiding both these results is generally recognised; and, in order to avoid them, it would be natural and convenient that the authority responsible for the management of the Paper Currency should have a share in the work of selling the bills of exchange and telegraphic transfers on India needed to meet India Office disbursements. It may therefore be assumed that participation in this work would be one of the duties or privileges of any State Bank entrusted with the custody of a large part of the balances of the Government of India and with the management of the Paper Currency. The method of participation is discussed in paragraph 7 below.

* This is the effect of the notifications printed at the end of Parliamentary Paper 495 of 1913 ("East India Mint for Gold Coinage.")

*Duties and Privileges that would not be entrusted to it.*

6. The three duties mentioned in (*A*), (*B*), and (*C*) above appear to be those which a State Bank would naturally assume. Before considering in detail how (and especially in what relationship to the Government) it would discharge them, it may be well to mention some duties and privileges which it would appear undesirable that the Bank should assume or that the Government should wish to impose or grant:—(1) It may be said with confidence that no bank would accept the responsibility for "the convertibility of the rupee" in the sense of undertaking a definite obligation to provide sovereigns for the public in exchange for rupees without limit of amount. All that a bank could be expected to do is to issue sovereigns, when it has them, to the public in exchange for rupees at the rate of 1*l.* = Rs. 15, as the Government now does. (2) It may be said with equal confidence that no bank would accept an unlimited obligation (except so far as it acted as the agent of the Government) to sell bills on London at a fixed rate and without limit of amount in order to support exchange. (3) In view of what is said in (2), it appears natural that the responsibility for the management of the Gold Standard Reserve should remain with the Government, though as a matter of convenience the carrying out of particular transactions relating to it (including the sale as agent of the Government, of bills on London for the support of exchange) might be entrusted to a State Bank. (4) The question of allowing a State Bank to borrow in London on the security of its investments, in order to send money to India—on the lines of the similar proposals made by the Presidency Banks in 1899–1905*—raises certain difficulties of detail. It may be doubted whether such loans would be obtainable in large amounts with such ease as was contemplated by the Presidency Banks in 1899–1905. If they were effected, the natural method of placing the proceeds at the disposal of the Bank in India would be to pay the money in gold to the Paper Currency Reserve in India or England, and to transfer rupees thence to the banking resources of the State Bank. If the gold was shipped to India for this purpose, the transaction would be simple, but perhaps not profitable to the State Bank. If the gold was paid in to the Currency Chest in London, some arrangement would be necessary (in order to avoid unfair competition with the Exchange Banks) to prevent the State Bank from making the transfer to itself of rupees in India at a lower rate of exchange than that at which it was selling drafts on India to the Exchange Banks. It is doubtful whether, under these conditions, a State Bank would find it worth while to enter at all into transactions of a kind so different from its normal business. (5) The balance of considerations seems clearly against allowing a State Bank to receive deposits in London. If deposits in London were allowed, the object would be to enable the money to be remitted (presumably by one of the methods mentioned in (4)) to India to be placed by the Bank at the disposal of trade; but the liability to withdrawals by the London depositors, involving the automatic reduction of the amount at the disposal of the Bank and of trade in India, might be seriously inconvenient. (6) There appears to be no reason why the Bank should enjoy in relation to the coinage any special position such as was contemplated by Mr. A. de Rothschild (*see* paragraph 3 above). The Bank would, no doubt, regularly issue rupees to the public in exchange for sovereigns at the rate of Rs. 15 = 1*l.*, but it would replenish its stock of rupees when necessary by getting them from the Government under the procedure laid down in the Notifications of 1893 printed at the end of Parliamentary Paper 495 of 1913*. In this respect it would be in exactly the same position as any other bank, or indeed any member of the general public: and in such a matter as coinage (which is an exercise of one of the rights of sovereignty), there is no reason why it should be in any other position.

* *See* "Papers relating to a proposal to establish a Central Bank in India (1899–1901), &c." (Appendix XV., page 355).

* East India (Mint for Gold Coinage).

*Methods of Business.*

7. Assuming that the business of a State Bank would be:—

To hold as Bankers a large part of the Government Balances;

To manage the Paper Currency;

To take part in the sale of drafts on India for meeting the Secretary of State's requirements;

it is necessary to consider what would be Bank's methods of business and its relations with the Government. The most convenient course will be to consider the questions that arise under each of the three several branches of business.

*Holding of Government Balances.*—On the first question that arises in connection with the holding of the Government Balances in India, viz., whether the whole or only a part, and if so what part, of those balances should be lodged with a State Bank, all that can be said at present is that, if the establishment of a State Bank is to be justified at all, the amount of Government Balances lodged with it must appreciably exceed the aggregate amount now lodged with the Presidency Banks. It would be useless in such a Memorandum as the present to say more, because it will be universally recognised that the matter is one in which the Government of India must have the preponderating voice.

The second question is as to the relationship with the Government required by the Bank's holding of a considerably increased portion of the Government Balances. The conditions to be satisfied are that the Bank must be conducted on generally sound principles, and that the Government must have all reasonable certainty of being able to withdraw without difficulty or delay whatever part of the amount at its credit it needs at any time for the purpose of meeting its disbursements. Two possible methods of satisfying these conditions might be advocated, viz.:—(1) that the Bank should act under a code of rules sanctioned by the Government but that the Government or its representatives should take no part in the management; (2) that the Government should directly or through Government directors take part in the management of the Bank, a scheme which is equally compatible with the existence and the non-existence of a set of rules of business sanctioned by the Government. The second alternative seems clearly preferable. It is supported by the precedents of the Bank of France, the German Reichsbank, the Austro-Hungarian Bank, the Bank of Russia, and the Bank of Japan,* and by the following general considerations:—Past experience, as summarised on page 5 of my Memorandum on "Location and Management of general Balances of the Government of India, &c"† shows that a set of rules such as is embodied in the Presidency Banks Act has not always sufficed to prevent difficulty and delay in the withdrawal by the Government of money standing to its credit in those Banks. Any additional rules intended to safeguard the interests of the Government as chief depositor would presumably take the form of provisions such as were suggested by the Government of India in their letter to the Secretary of State, No. 264, dated 21st July 1904, paragraphs 19–21,‡ requiring either absolutely or subject to a penalty the maintenance by the Bank of a minimum proportion of cash to liabilities. Such provisions are likely to be worse than useless. They would not be directly operative, and might possibly have little restraining effect, so long as the cash was above the minimum proportion; when it had fallen to that level, the provisions would become operative either by absolutely immobilising the Bank's residuum of cash or by limiting its use by restrictions not necessarily having any appropriateness to the situation that would then have to be faced. In either case inconvenience would certainly follow and possibly panic. The alternative method of exercising Government control by the appointment of Government directors is free from all these disadvantages. If the directors are well chosen, their presence ought not to hinder the Bank in the efficient conduct of its business either in ordinary times or in emergencies, and would be a safeguard, such as would be required alike by the direct interest of the Government and by public opinion, against rash trading. Government directors could not, of course, prevent all possibility of financial crises due to such causes as war, imprudent trading by Indian merchants, or trouble in other countries; and

* *See* Conant: *History of Modern Banks of Issue* (New York and London, 1909), pages 69, 201, 233, 260, 557.

† *See* also the correspondence and notes, relating to an incident in 1888, printed on pages 36–41 of the paper accompanying my Memorandum on "Location and Management, &c." (Appendix II.).

‡ This letter is included in the "Papers "relating to a proposal to establish a "Central Bank in Indian (1899–1901) "&c." (Appendix XV., pages 441–2).

it may be argued that the Government, by its connection with a Bank, would be liable to a greater degree than now to be embarrassed by such crises. But the Government has not in the past stood aloof when such crises have occurred in India, and its control over a State Bank would presumably lessen the risk of their occurrence.

Subject to this official control, a State Bank would presumably do its banking business in India in much the same way as the Presidency Banks now do.

*Management of Paper Currency.*—This work would presumably be done by a State Bank under precisely the same conditions under which the Paper Currency Department now does it. Its transfer to the Bank would increase the necessity for the appointment of Government directors, because no one would seriously propose that the 23,200,000*l.* in sovereigns, 13,500,000*l.* in rupees, and 9,300,000*l.* in securities now (9th July 1913) held by the Government as the Paper Currency Reserve, should be handed over to a private enterprise Bank free from detailed Government control.

*Participation in sale of Bills and Telegraphic Transfers on India.*—The reasons which appear to necessitate the participation by a State Bank in the sale of drafts on India have been given in paragraph 5 (C) above, and appear to be conclusive. They involve the establishment of a London office of the Bank. But it would be impossible to leave the management of the sales under the uncontrolled management of the London office of the Bank; if this were done, the Bank might so regulate the sales that, when it held large Government balances in India and opportunities occurred for remitting to London what the Secretary of State needed to meet his disbursements, the opportunities would not be taken, and the Secretary of State would be without the funds that he needed in London. This matter is one of such vital importance to the Secretary of State and the Government of India that the London Office of the Bank in selling drafts on India would have to act in close co-operation with, and (in case of need) under the control of, a representative or representatives of the Secretary of State. The position created by the presence at the London Office of a Government representative, ordinarily acting in co-operation with the representatives of the Bank, but with great powers of control in reserve, may at first appear anomalous; but it would be precisely similar to the position of the Government director in London of Guaranteed and other Indian Railway Companies who has, under the contracts between the various Indian railway companies and the Government, "power to exercise at his discretion an absolute veto in all proceedings whatever at the Board of Directors." The co-existence of this power with the comparatively independent discharge by the Boards of Directors of very important duties constitutes so unusual a system that, if its establishment were now proposed for the first time, it would probably be declared to be impracticable. But it has actually been in operation for many years, and has worked with remarkable smoothness.

*Relations with the India Office.*

8. The part that would be taken by the Bank in the transfer of funds between India and London, the work of its London Office, and the relations between its London Office and the India Office, seem to need some further elucidation in detail than has been given above; and the following remarks will, it is hoped, supply what is needed:—

(A.) It has been tacitly assumed above that the Bank's work in connection with exchange business would be confined to the sale by its London Office of drafts on India under conditions as similar as possible to those under which Council Bills and Telegraphic Transfers are now sold by the India Office, and the sale, as agent for Government, of bills on London for the support of exchange. This is not the only method by which a State Bank could take part in exchange business, since it would obviously be possible, if desirable, to allow it in addition to buy mercantile bills in India and in London and to sell drafts on London on its own account. The reasons in favour of confining its exchange business within the limits suggested above are that—

(1) The special qualifications of its directors in India would be their knowledge of trade conditions in India. They would not be in a favourable position for acquiring the expert knowledge of con-

ditions outside India that is required for the conduct of exchange business in the larger sense; and it might be impracticable, and would probably be undesirable, for the Bank to conduct such business in reliance on the possession of its London representatives of the necessary knowledge.

(2) The competition in general exchange business of a State Bank with the existing Exchange Banks would probably be very prejudicial to the latter; and Indian trade would no doubt be injured if deprived to any great extent of the advantage arising from their large capital, wide connections, and great knowledge and experience.

(B.) After the establishment of a State Bank, the Secretary of State would continue to obtain part of the funds required to meet his disbursements in England from the proceeds of loans and Miscellaneous Receipts from other Government departments, &c.; and it would be necessary that money so obtained should, as now, be paid to the Secretary of State's account at the Bank of England, as required by 21 & 22 Vict., c. 106, s. 43.*

* Printed on page 354.

The natural procedure for the supply of the remainder (which would ordinarily be the larger part) of the money required by the Secretary of State would be as follows: He would inform the Bank at the beginning of each year of the amount and date of his estimated requirements during the year, and would at intervals revise the estimate. The London office of the Bank would endeavour, acting with the co-operation, and if necessary under the control, of the India Office representative, to sell drafts on India to an amount sufficient to meet the Secretary of State's requirements; and would sell in excess of this amount when this seemed advisable in order to satisfy trade demands or for other reasons (*e.g.*, when the total Government balances were high, and it seemed desirable to defray part of the capital expenditure of the current or a subsequent year from them rather than from loans issued in the United Kingdom). The proceeds of the sale of drafts would, in the first instance, be part of the general assets of the Bank held against its liabilities to the Government and other depositors, and would be used by it in such manner (*e.g.*, for the grant to approved borrowers of loans against security) as seemed best, the Bank acting under such Government control as might be exercised. When the Secretary of State desired to draw money from the Bank to meet his disbursements, he would give instructions for the transfer of the necessary sum to the account kept by him at the Bank of England under 21 & 22 Vict., c. 106., s. 43. The equivalent (at a rate of exchange calculated in accordance with rules that would have to be made as part of the initial arrangements between the Bank and the Government) would be written off the total of the Government deposits in the general account between the Bank and the Government of India.

At times when the total balances deposited in the Bank by the Government of India were large and when favourable trade, setting up a heavy demand for drafts on India, caused large amounts to be temporarily held by the Bank in London, the Bank's balance in London would probably be much in excess of the Secretary of State's balance, just as (according to common belief) the balance of the Bank of Japan in London is as a rule much larger than the Japanese Government's balance there.

At times of unfavourable trade conditions, the Bank would no doubt be occasionally unable to supply from its ordinary resources in England the full amount needed by the Secretary of State to meet his necessary disbursements in London. It would then be a matter for consideration which of the following methods should be used to keep the Secretary of State in funds:—

Shipment of sovereigns from India either by the Government of India direct to the Secretary of State or by the Bank in India to its London office;

Withdrawal of money from the Gold Standard Reserve or Paper Currency Reserve in London against payment of the corresponding amount to those Reserves by the Government of India in India;

Issue of loans by the Secretary of State;

Borrowing by the Bank in London in order to place money at the Secretary of State's disposal.

*Capital, Division of Profits, Provision for revision or termination of relations between State Bank and Government.*

The following points are important enough to need consideration at the present stage :—

*Amount of Capital of State Bank.*—In the discussion of 1892–1901 it was frequently assumed that an increase of the capital of the three Presidency Banks would be required as part of any scheme for their amalgamation into a Central Bank. Such an increase would be desirable in the event of their amalgamation into a State Bank; but it is possible that this condition might prove fatal to any scheme and might be waived without serious disadvantage. The chief facts bearing on these points are as follows :—

On 31st March 1912* the Capital and Reserves of the Presidency Banks were as follows :—

| — | Bank of Bengal. | Bank of Madras. | Bank of Bombay. | Total. |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Capital - - - | 1,333,000 | 400,000 | 667,000 | 2,400,000 |
| Reserve - - - - | 1,200,000 | 353,000 | 707,000 | 2,260,000 |
| Total - - - | 2,533,000 | 753,000 | 1,374,000 | 4,660,000 |

The last weekly statements published by the Banks in March 1912, showed the Government balances held by them as follows :—

| Bank of Bengal. | Bank of Madras. | Bank of Bombay. | Total. |
|---|---|---|---|
| £ | £ | £ | £ |
| 1,278,000 | 708,000 | 1,142,000 | 3,128,000 |

The money held by the Government in Reserve Treasuries on 31st March 1912 amounted to 3,506,000*l.* If this had been reduced to an Emergency Reserve of 1,000,000*l.* by the transfer of 2,506,000*l.* to the Presidency Banks, the total Government deposit in the Banks would have been approximately 5,634,000*l.*,† or 121† per cent. of their aggregate capital and reserves. If the Banks had held half of the additional 2,506,000*l.* in coin or currency notes, the total amount so held, which was actually 8,831,000*l.* would have been raised to approximately 10,084,000*l.*† of which the Government deposit of 5,634,000*l.*† would have represented 55·8 per cent.† These percentages may be taken as representing very roughly the highest proportion that Government deposits would bear in normal times to the Capital and Reserves and to the Coin and Currency Notes of a State Bank (in its early days) formed by the amalgamation of the three Presidency Banks without an increase of their capital. They suggest that an increase of capital would be desirable, if practicable.

† The figures are not exactly accurate as the last weekly statements issued by the Banks in March were not made up to 31st March.

* This date is given because the Government balance was then normal, whereas on 31st March 1913 it was abnormally high. By 31st March 1913 the Reserves of the three Presidency Banks had risen to the following amounts :—

| Bank of Bengal. | Bank of Madras. | Bank of Bombay. | Total. |
|---|---|---|---|
| £ | £ | £ | £ |
| 1,233,000 | 473,000 | 707,000 | 2,413,000 |

But there are few points more prominent in the correspondence of 1899–1901 than the unwillingness of the Presidency Banks to increase their capital, owing to the difficulty anticipated in the way of finding profitable employment for the additional amount, taking the year as a whole;‡ and the difficulty would be greater under a scheme that included the deposit of larger Government balances with one amalgamated bank, since employment would have to be found for the additional Government deposits as well as for additional stockholders' capital. It might, therefore prove to be impracticable to insist on an increase of the latter as one of the conditions of a scheme of amalgamation; and, if this were the case, it would perhaps be best that the Government should be content to rely on an increase of its own control, rather than on an increase of stockholders' capital, for the additional security required in respect of its larger deposits.

‡ *See* the following passages in the "Papers relating to a proposal to establish a Central Bank in India (1899–1901), &c." (Appendix XV.):—Letters from Bank of Madras, 13th November 1899 (p. 364); Bank of Bengal, 2nd December 1899 (p. 366); Bombay Chamber of Commerce, 20th December 1899 (p. 387); Government of India to Secretary of State, 13th June 1901 (p. 426); Bank of Bengal, 9th March 1901 (p. 446); Bank of Bombay, 22nd March 1901 (p. 450); Bank of Madras 2nd April 1901 (p. 454).

*Question of Sterling or Rupee Capital.*—In the discussion of 1899–1901 the Secretary of State (Despatch of 24th August 1899, paragraph 12, page 357), and the Government of India (Letter of 18th January 1900, paragraph 13, page 405), contemplated that a Central Bank of India, if formed, would have a sterling capital. These opinions were no doubt due to the fact that, at the time of their expression, the memory of the fluctuations in the sterling value of the rupee was still fresh, so that a bank on a sterling basis seemed more likely to command confidence and to attract capital than one on a rupee basis. In present circumstances it seems more natural that the capital of an Indian State Bank should be expressed in rupee currency, which is the chief money of account in India.

*Government participation in Profits.*—Under the scheme that has been sketched above, it would be obviously reasonable that the Government should share in the profits of the Bank; and its share would naturally be a proportion of the profits corresponding roughly to the proportion between (*a*) the excess of its average deposits in each year over a fixed sum representing its normal deposits with the three Presidency Banks under existing conditions, and (*b*) the capital and reserve of the Bank. It seems scarcely worth while at the present stage to elaborate detailed suggestions on this matter: but it may be mentioned that such profit-sharing partnerships between the Government and companies are a familiar feature in Indian administration, since most of the important railway systems of India are worked under similar agreements, and the large experience of the India Office and the Government of India in drawing up such agreements should be of considerable value in connection with the establishment of a State Bank.

*Revision or Termination of Arrangements between Government of India and State Bank.*—In view of the importance of the duties that would be entrusted by the Government to a State Bank, it would be clearly necessary to include in the agreement, charter, or other instrument by which it was constituted some provision, such as are included in the constitutions of the Bank of France,* the Bank of Japan,† and the Reichsbank,‡ for enabling the relations between the Government and the Bank to be revised or terminated at stated times or on the occurrence of specified events. Such provision would no doubt be made in the form of a clause enabling either party to terminate its relations with the other; but, in any circumstances that are likely to occur, notice of termination would probably be given, if at all, only as a means of securing an alteration in the division of profits§ or in the rules or practice governing the conduct of business.

* Conant. *History of Modern Banks of Issue*, p. 67.

† *Ibid.* p. 557.

‡ See *German Imperial Banking Laws*, issued by the National Monetary Commission, Washington Government Printing Office 1910, p. 52.

§ Under the German Bank Act of 1875 the Government had the right of discontinuing the Reichsbank and buying up its property on certain terms, (*German Imperial Banking Laws*, pp. 52–3) on 1st January 1891 and thereafter at the expiration of every ten-year period. It could have done so at a considerable profit in 1911 (See *Renewal of Reichsbank Charter*, issued by National Monetary Commission 1910, p. 233), but the use that it made of the option was to reduce the share of profit distributable to the shareholders. (See *The Reichsbank*, issued as above, page 33.)

## Erratum Slip.

ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY.

Appendices, page 350.

Line 37: For "the capital and reserve of the Bank," read "the capital, reserve, and other resources of the Bank."

## III.

## ADVANTAGES AND DISADVANTAGES OF THE SCHEME AND PROBABILITY OR OTHERWISE OF ITS ADOPTION.

9. The object of Section II. was to set forth suggestions as to the lines on which it appears that a State Bank can best be established, if one is to be established at all. In the present section the attempt is made to summarise the considerations for and against the establishment of the Bank and as to the probability or otherwise of its establishment.

*Advantages of a State Bank.*

(*a*) The chief advantage of a State Bank would be that the whole, or a part, of the money that is kept under existing conditions in Reserve Treasuries, and possibly a part of what is now kept in District Treasuries, would be deposited with the Bank and thus placed at the disposal of trade, with the prospect of a beneficial effect primarily on discount rates and ultimately on the general course of industry and trade. The measure of this advantage depends mainly on the amount of money that would be transferred from Government Treasuries to the Bank. The following particulars will serve as the basis of a rough estimate of the amount: If a State Bank had been in existence in 1910–11 and 1911–12,* and had held, besides the sums actually in the Presidency Banks, the amount in the Reserve Treasuries less 1,000,000*l.*, which would possibly have been retained by the Government as an emergency reserve, the additional money at the disposal of trade would have been as follows at the end of each quarter :—

* I omit 1912–13 as the balances in Reserve Treasuries were abnormally high.

| — | Actually held in Reserve Treasuries. | Deduct 1,000,000*l.* for assumed Emergency Reserve. | Additional Amount at disposal of Trade. |
|---|---|---|---|
| | £ | £ | £ |
| 30th June 1910 - - | 5,601,667 | 1,000,000 | 4,601,667 |
| 30th September 1910 - | 4,789,133 | 1,000,000 | 3,789,133 |
| 31st December 1910 - - | 1,877,333 | 1,000,000 | 877,333 |
| 31st March 1911 - - | 4,437,667 | 1,000,000 | 3,437,667 |
| 30th June 1911 - - | 5,454,300 | 1,000,000 | 4,454,300 |
| 30th September 1911 - | 3,791,500 | 1,000,000 | 2,791,500 |
| 31st December 1911 - - | 2,143,300 | 1,000,000 | 1,143,300 |
| 31st March 1912 - - | 3,506,000 | 1,000,000 | 2,506,000 |

There can be little doubt that the additional amount that would have been held by the Bank in the first quarter of the calendar year, which is the period of greatest stringency in India, would have kept the discount rate below the maximum that was actually reached.

(*b*) If the practice of lending at certain times from the Paper Currency Reserve is to be introduced, the best agency for carrying it out would probably be a State Bank in charge of the Reserve and at the same time in touch with the commercial community.

(*c*) The existing system under which Council Bills and Telegraphic Transfers are sold by the Secretary of State involves the transaction by him and his staff of work outside the ordinary sphere of a Government Office. There would, therefore, perhaps be some advantage in the cessation of the Secretary of State's sales of Council Bills and the substitution of the sale, by the London Office of a State Bank, of drafts on its Indian offices.

(*d*) Similarly there would be an advantage in the reduction (*see* paragraph 8 (B) above) of the cash balance held by the India Office and consequently of the work and responsibility (of a nature not ordinarily falling on a Government office) undertaken by it in connection with the placing of money on loan or deposit.

(*e*) The Government might occasionally find it advantageous to borrow temporarily from a State Bank (in India or England) instead of issuing a loan.

(*f*) The Government would derive a pecuniary advantage from its share in the profits of a State Bank, representing in effect interest received on the part of its balance taken from Reserve Treasuries and other places where it now lies idle.

It will be noticed that this list of advantages does not assume that the establishment of a State Bank would enable economies of any importance to be effected by the reduction of Government establishments, or that it would lead to any increase in the popularity of the Paper Currency or in the efficiency of its management. Neither of these results seems probable. As regards the latter, the growth of the note circulation and the additional facilities for encashment that have from time to time been provided under Government management seem to indicate that the efficiency attained under that system is probably as great as would be attained under management by a bank.

*Disadvantages of a State Bank and arguments against its establishment.*

(*g*) The Government of India and the Secretary of State, by surrendering the custody of Government money to a bank to a greater extent than now, might experience difficulty and delay in obtaining it when required.

(*h*) The advantages mentioned in (*a*) and (*b*) above could be obtained to a considerable extent in the absence of a State Bank (but without the additional security to the Government provided by Government participation in management) by an extension of the present practice of placing part of the Treasury Balances on deposit with Presidency Banks and the introduction of a similar practice in connection with the Paper Currency Reserve.

(*i*) The amalgamation of the three Presidency Banks into one State Bank, with its headquarters presumably at Calcutta, would involve a considerable change in the position of the Banks of Bombay and Madras. They are now independent and have an undivided responsibility; and in this position have probably acquired valuable and minute knowledge of trade conditions in their respective areas. The diminution of their independence and responsibility might have a lowering effect on their activity, knowledge, and efficiency. And they might be occasionally overruled from headquarters on matters on which it would be better that their judgment, based on local knowledge, should be followed.

(*j*) Some questions, not quite easy to settle, might arise as to the relations between the London Office and the Head Office in India regarding the sale of remittances in India, since the Secretary of State, acting through the Government representative at the London Office, might find occasion to use his power of ultimate control in a way that did not commend itself to the Head Office.

This list of disadvantages does not include any reference to the possibility of loss to the Government through the transfer of the management of the Paper Currency. It may be assumed that one of the conditions of the establishment of a State Bank, including the transfer to it of the management of the Paper Currency, would be the retention by the Government of the net profits of the Note issue.

Neither in the list of advantages nor in that of disadvantages is anything said about the effect of the establishment of a State Bank on the amount of gold imported to, exported from*, or circulating in India, on the maintenance of the exchange value of the rupee, or on the stability and development of the existing currency system. There is no reason to suppose that the establishment of a State Bank would have any effect in any of these directions.

* The view that the import of gold to, and its export from, India would be materially affected by the establishment of a State bank appears to rest on two assumptions, viz.: (1) That the establishment of a State bank would reduce the average level and the fluctuations of the rate of discount in India; (2) That that rate has an important influence on the flow of gold to and from India.

The first assumption is no doubt correct.

There seems for the following reasons to be little substance in the second:—(A) Experience shows that the flow of gold *to* India is influenced mainly by the magnitude of the trade balance due to India, the freedom or otherwise with which the Secretary of State sells Council Bills and Telegraphic Transfers, and the price (varying with the changes in the Australian and Egyptian exchanges) at which sovereigns can be obtained for shipment from Australia and Egypt to India. There is little or no evidence to show that it is materially affected by a rise in the rate of discount in India or that any effect due to that cause works in the direction of attracting gold to India. Indeed, a rise in the Indian rate of discount tends, in the first instance at least, to induce the exchange banks to buy telegraphic transfers from the Secretary of State in preference to making remittances by the slower method of shipping gold. (B) A reduction in the rate of discount in India would obviously not encourage the flow of gold *from* India unless exchange fell to gold exporting point. Such a fall is of very rare occurrence; and the facts mentioned in my Memorandum on the Gold Standard Reserve† show how little evidence there is to support the view that such a fall, when it occurs, tends to lead to the export of gold.

† Page 90 and Statement D on page 103.

*Probability or otherwise of a State Bank being established.*

10. The probability of a State Bank being established depends mainly on the views taken by the Secretary of State, the Government of India, and the Presidency Banks.

The first two authorities were well disposed in 1901 (as shown in the passage quoted in the Prefatory Note above) to the suggestions for establishing a Central Bank, and may therefore be inclined to consider favourably the scheme sketched in the present Memorandum, which is in effect a development in more definite form of those suggestions. The position of the Presidency Banks in considering a scheme for a State Bank must necessarily be one of some difficulty. Whatever advantages to the public and the Banks may be anticipated from the establishment of a State Bank must be accompanied, as shown in 9 (*i*) above, by some possibility of disadvantage to at least the two banks not situated at the place which would be the headquarters of a State Bank. The recognition of this—described by the Government of India in 1901, with perhaps a tinge of unnecessary harshness, as "provincial and personal jealousies"‡—appears to have been one of the chief causes of the failure of the scheme discussed from 1899 to 1901. If the Royal Commission reports that a scheme for a State Bank deserves active consideration, the Directors and Shareholders of the Presidency Banks will be bound to give due weight to the danger of disadvantageous effects on their own status and efficiency; but it is at least possible that they may regard this danger as too remote to constitute a serious obstacle to a scheme which appears to hold out some prospect of advantage to the Indian commercial public as a whole.

‡ Letter from Government of India to Secretary of State, dated 13th June 1901, paragraph 13, page 428.

## Statutory Enactments regarding the Account of the Secretary of State in Council of India at the Bank of England.

### 21 & 22 Vict., c. 106 (Act for the Better Government of India), Section 43.

Revenues remitted to Great Britain, and Monies arising in Great Britain, to be paid to Secretary of State in Council.

XLIII. Such Part of the Revenues of *India* as shall be from Time to Time remitted to *Great Britain*, and all Monies of the said Company in their Treasury or under the Care of their Cashier, and all other Monies in *Great Britain* of the said Company, or which would have been received by them in *Great Britain* if this Act had not been passed, and all Monies arising or accruing in *Great Britain* from any Property or Rights vested in Her Majesty by this Act, or from the Sale or Disposition thereof, shall be paid to the Secretary of State in Council, to be applied for the Purposes of this Act; and all such Monies, except as herein-after otherwise provided, shall be paid into the Bank of *England*, to the Credit of an Account to be opened by the Governor and Company of the Bank of *England*, to be intituled "The Account of the Secretary of State in Council of *India*;" and all Monies to be placed to the Credit of such Account under this Act shall be paid out upon Drafts or Orders signed by Three Members of the Council, and countersigned by the Secretary of State or One of his Under Secretaries, and such Account shall be a public Account: Provided always, that the Secretary of State in Council may cause to be kept, from Time to Time, under the Care of their Cashier, in an Account to be kept at the Bank of *England*, such Sum or Sums of Money as they may deem necessary for the Payments now made out of Money under the Care of the Cashier of the said Company.

### 22 & 23 Vict., c. 41 (Act to amend the Act for the Better Government of India), Section 3.

Mode of signing Drafts or Orders on Bank of England.

III. Notwithstanding anything contained in the said Act, it shall be lawful for the Governor and Company of the Bank of *England* to pay out all or any of the Moneys paid to the Credit of the Account opened under the said Act by the Governor and Company of the Bank of *England*, intituled "The Account of the Secretary of State in Council of *India*," upon any Drafts or Orders signed by the Accountant-General on the Establishment of the Secretary of State in Council, or by either of the Two Senior Clerks in the Department of the said Accountant-General, and countersigned in such Manner as the Secretary of State for *India* in Council shall from Time to Time order or establish; and any Draft or Order signed and counter-signed as aforesaid, or in manner directed by the said Act, shall effectually discharge the Bank of *England* for all Moneys paid upon the same.

# APPENDIX XV.

## PAPERS RELATING TO A PROPOSAL TO ESTABLISH A CENTRAL BANK IN INDIA (1899–1901) AND TO CHANGES AND PROPOSED CHANGES IN THE PRESIDENCY BANKS ACT (1904–1906), HANDED IN BY MR. L. ABRAHAMS, C.B., ASSISTANT UNDER SECRETARY OF STATE FOR INDIA.

*Note.*—As explained on page 363, passages relating to the proposal (carried out in the Presidency Banks (Amendment) Act, 1907) to allow the Presidency Banks to advance on securities issued by State-aided railways and District Boards and to invest in such securities have been omitted from the present collection as being no longer of interest. The omissions are indicated by rows of asterisks.

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9. I desire particularly to commend to your attention the important recommendation with regard to the improvement and concentration of banking facilities contained in the separate report of Mr. Hambro.

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Mr. E. A. Hambro's remarks referred to above.

Although I am aware that the question of the banking facilities of India was not referred to the Committee, I venture to call special attention to the first part of paragraph 22 where it is pointed out that they have not of late years kept pace with the increasing trade, and, further, to draw attention to the fact that it has been considered wise in Europe to entrust the carrying out of currency laws to banks established or strengthened for that purpose. In my opinion, a strong bank, properly constituted, would be a powerful assistant in giving effect to any regulation having the convertibility of the rupee in view, and that, working under proper currency regulations, such a bank would be likely to carry them out in a more effective way, and in a manner more in harmony with the trade wants of the country, than any Government Department, however well administered, could possibly do.

I venture to call attention to this point because I believe that the success of the recommendations of the Committee, if adopted, will very much depend on the banking wants of the country being assisted in times of pressure, and curtailed in times of slackness; and this, in my opinion, could only be done by the establishment of some institution having ample facilities at its disposal, and framed on somewhat similar lines to those of either the Bank of England or the Bank of France.

E. A. HAMBRO.

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Extract paragraph 12 of Letter from the Government of India to the Secretary of State for India, No. 301, dated the 24th August 1899.

12. It only remains for us to discuss Mr. Hambro's proposal for the establishment of a strong Bank. There can, we think, be no question that, for the purpose of the effective maintenance of the gold standard, a Bank with a large sterling capital, and constituted on the model of the Bank of England or Bank of France, would be a very powerful support to the State. Such a Bank would be better able to measure and deal with the requirements of trade for foreign remittances than any Government, and it would have the capacity, which a Government Department cannot be expected to possess, of preventing unnecessary export of gold without hampering trade. An institution of the kind would also be most effective in promoting the circulation of gold. It would, again, be an effective agent for securing an increased circulation of fiduciary money; and we might find it possible to entrust it with the management of the Government Paper Currency. Apart altogether, however, from the question of the gold standard, we consider that the constitution of such a Bank is desirable. The three Presidency Banks do not command separately or together a capital adequate to the commercial requirements of the country or sufficient to prevent excessive fluctuations in the rates of discount at different seasons of the year; while the legislative restrictions under which they conduct their business and the sharp division of their respective spheres of influence, however necessary or expedient at a former period, now form an obstacle to business. The Presidency Banks, however, have in the past done good service and the Government owe them full consideration apart from any actual contract or legal obligations. We think, therefore, that in the first instance the attempt should be made to absorb the three existing banks in one strong establishment, constituted on a sterling basis, care being taken that the interests of holders of shares in the banks should be fully protected and secured. The whole question is one that will require careful consideration, and we propose to address Your Lordship again on the subject after ascertaining the views of the banks and of the mercantile community.

No. 5123–A., dated 10th November 1899.

From H. HESELTINE, Esq., Assistant Secretary to the Government of India, Finance and Commerce Department,

to the CHAIRMAN { Bengal / Bombay / Madras / Rangoon / Karachi / Upper India } Chamber of Commerce.

The Government of India have recently had under consideration the question of amending the Presidency Banks Act, 1876, with a view to relaxing the restrictions on the business of the banks which are imposed by Sections 36 and 37 of the Act. The circumstances under which this question has been raised and the attitude which the Government of India are at present inclined to adopt are explained in the speeches* made by His Excellency the Viceroy and the Honourable Mr. Dawkins at a meeting of the Legislative Council of the Governor General held on the 1st September. For the reasons there given, the examination of the question was postponed for a time, but it is probable that it will be taken in hand at an early date. In view of this possibility the Government of India would be glad to be favoured with the opinion of the Chamber on the proposal to relax the restrictions imposed by the Act and with suggestions as to the precise directions in which any relaxation should be made. I am to ask that the Chamber will consider the matter with special reference to the existing capital of the Banks.

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Copy forwarded to the Secretary and Treasurer, Bank of { Bengal. / Bombay. / Madras. }

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Extract from the proceedings of the Council of the Governor General of India assembled for the purpose of making Laws and Regulations under the provisions of the Indian Councils Acts, 1861 and 1892 (24 and 25 Vict., c. 67, and 55 and 56 Vict., c. 14), at its meeting on Friday, the 1st September 1899.

PRESIDENCY BANKS BILL.

The Honourable Mr. Dawkins moved that the Bill further to amend the Presidency Banks Act, 1876, be taken into consideration. He said:—

"Last Friday, when asking leave to introduce this Bill, I reminded Council that strict limitations were imposed by the legislature on the business in which the Presidency Banks are authorised to deal, and I added that these limitations, to some extent, appeared to have survived the times and conditions which had rendered them necessary. With the permission of Your Excellency, I would like to amplify the opinion which I then expressed incidentally. Upon its becoming known that we intended to introduce the purely formal amendment now before us, we were informed, through the Comptroller-General, that the Bank of Bengal desired us to reconsider, in connection with this amendment, the refusal of Lord Elgin's Government to add the securities of assisted branch lines to the securities of railways guaranteed by Government in which alone the Presidency Banks may deal. We also received a telegram from the Madras Chamber of Commerce, asking us to introduce further legislation to empower the Presidency Banks to deal in the securities issued by District Boards with the authority of Government. The Presidency Bank of Madras and the Madras Government support the proposal.

"We have come to the conclusion, a conclusion which, I think, must commend itself to every reasonable man, that we could not tack on, in a hurry, legislation involving questions of principle to a purely formal amendment. Nor could we defer passing this formal amendment and give time for the mature consideration of these larger issues, as this amendment is urgent, its object being to enable the Presidency Bank of Bombay to deal in the securities of the loan already issued by the Bombay Improvement Trust.

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* Copy enclosed.

"At the same time we do not wish to return a simple *non-possumus* to the requests of the Bengal Bank and of the Madras Chamber of Commerce, or what is perhaps more disheartening, to postpone their consideration indefinitely. In the opinion of Government the time has come for reviewing the question of these restrictions on the bank's operation, as there is ground for thinking that they may, to some extent, have survived the reasons for their imposition, and do unnecessarily hamper business and enterprise.

"The origin of these restrictions is, I think, generally known, but perhaps I may be allowed to refer to it. Formerly, as Honourable Members are aware, Government had a pecuniary interest in the Presidency Banks and was largely concerned in, and responsible for, their management. In 1872, after the failure of the old Bank of Bombay, it was decided that Government should divest itself of its interest in the banks, and withdraw from active participation in their management. Protracted discussion took place for several years; and I find among the proceedings that a proposal was made, but not pressed, to allow the Presidency Banks the freedom and discretion of ordinary banks in dealing in shares and stock. It was natural that the proposal was not pressed, for the failure, involving Government in considerable loss, of the old Bombay Bank, which for some reason had been freed from the restrictions imposed upon the other Presidency Banks, was primarily attributed by the Commission of Inquiry to speculative dealings encouraged by the absence of such restrictions. It was therefore felt that the business of the Presidency Banks must still be subjected to strict limitations in view of a variety of circumstances and principally, of course, with the object of securing the safety of the Government balances entrusted to the Presidency Banks by special arrangement. Much has happened since 1876: new banks have grown up; new forms of enterprise have been started—but the principal factor remains constant: the Presidency Banks are still the custodians of the Government balances—and I do not think that any bank in India, which receives custody of the Government balances, can expect to be without restrictions on the class of business in which it may engage these public balances. Two considerations must be borne in mind. The Presidency Banks depend to a quite exceptional degree for their cash balances on the Government account. As Sir J. Westland showed, in the busy season nearly 80 to 90 per cent. of these balances are supplied from the Government account: a fact which, added to the fluctuations in the rate of discount, may make us ask seriously how far the Presidency Banks have sufficient capital to allow of the absorption of the resources they command in enterprises, the securities of which might not be easily realizable.

"Again the circumstances of India are peculiar. In England, if the Government were suddenly in need of money and the Bank of England had locked up the Government balances, it would not be of serious consequence. Money could be procured from a dozen other different quarters. In India, this would not be possible; and, indeed, we have a historic example in the embarrassment which the inability or reluctance of the banks to produce the money deposited with them brought upon Government when confronted with the sudden emergency of the Orissa Famine.

"I have thought it necessary to trouble Council with this retrospect and explanation, because we shall have to keep this central and vital consideration in view when we proceed to consider how far existing restrictions can be relaxed. But having uttered this word of caution, I may express my opinion that some relaxation is desirable: and I may state that Government is prepared and has decided to examine the whole question exhaustively, and in no narrow spirit.

"There is, I think, no doubt that, as regards railways, the limitation of the banker's operations to the securities of guaranteed railways is a serious impediment to the promotion of those assisted railways which the Government has so often expressed a desire to encourage. I may say that this is the conviction of my Honourable Colleague Colonel Gardiner, whose great practical experience and knowledge lends much weight to his views, and I congratulate Council that my Honourable Colleague will be able to take part in the consideration of this question. He knows where the shoe pinches, and his familiarity with every branch of railway organisation and with railway finance will supply Government with valuable suggestions.

"To what precise extent we shall be able to authorise the Presidency Banks to deal in the securities of the various classes of assisted railways, I shall not of course be expected to indicate at this moment. But looking to the total capital of such branches and to the terms under which some of them are constructed, I do not think it will be impossible to devise such safeguards as would permit us to relax the prohibitions now placed upon the Presidency Banks in regard to dealing in some of their securities.

"I now pass to the question raised by Madras, that of authorising the Presidency Banks to deal in the securities issued by District Boards, although this question, I may say, is not unconnected with that of railway development, in so far as District Boards may, as in the case of the Tanjore Board, themselves guarantee railways, &c., &c.

"I think we may admit that this is a question presenting less difficulty. District Boards and Municipalities, in the securities of which latter the Presidency Banks may deal, are equally considered as local authorities under the Local Authorities Loans Act of 1879, and require the same sanction from the Local Governments for their loan operations. The Municipalities and Port Trusts of the three Presidency Towns and Bombay City Improvement Trust alone stand on a different footing, as in the case of their operations the sanction of the Government of India, in addition to that of the Local Government, is required. But we thought the whole question of enlarging the area of securities in which the Presidency Banks may deal, might well be considered before further legislation was undertaken. No prejudice to the District Boards is likely to arise from the delay. The request from Madras has not been previously pressed upon Government, and there is no urgency, for, as a matter of fact, the District Boards almost invariably prefer to borrow from Government to borrowing in the open market, as they can get better terms from Government. Up to the present moment only two District Boards have raised money in the open market."

His Excellency the President said:—

"I should like to add a few words upon the subject touched upon by the Honourable Mr. Dawkins in the remarks to which we have just listened. The speech which he has made represents the views that are unanimously entertained by the Government of India. The question that has been raised by him is one, in my opinion, of great importance, and one upon which I should be grateful for the enlightenment and backing of public opinion. The Bill now before us, as he has told us, is one for a more or less formal amendment of the Presidency Banks Act of 1876, so as to admit to the list of securities, with which the banks are at present permitted to deal, a particular security which has only hitherto been excluded, because, when the Act was last re-enacted the Bombay City Improvement Trust had not yet been called into existence. The proposal, however, adumbrated by the Finance Member, contemplates still further extension of these securities in the future by including in them the scrip of subsidiary assisted railway companies.

"Now, under the existing law, the Presidency Banks are prohibited from dealing in them. We are disposed, as my Honourable Colleague has pointed out, to relax those restrictions, in the first place, in the interest of the banks so as to increase the scope of their operations, but, secondly, and still more, in the interest of the investing public, and of the general development of the country which we all have so much at heart. But here I must interpolate a word of caution. We are anxious to be generous; but we are bound to be prudent, and there is a certain point beyond which we cannot go.

"The Presidency Banks, as the Honourable Mr. Dawkins has pointed out, are not like ordinary banks. No relaxation of restrictions, even if such were possible in an extreme degree, could make them so. They differ, because the bulk of their cash balances—or what I suppose I may call their loanable capital—is supplied by Government, and because, if we subtract this at any given moment they are not, as a rule, in possession of sufficient independent capital to enable them to conduct operations on a large scale. The Government, therefore, is under a peculiar responsibility for these banks, and we are bound to enforce special regulations for the protection and the security of the balances which we ourselves have provided. We cannot afford to jeopardise them in the interests of general philanthropy. Within these limits we desire to do all in our power to free the banks from artificial

bandages, and to give to them ample liberty of movement. But herein I should like to point out that a reciprocal obligation, in my judgment, is involved. We do not contemplate these steps merely in order to provide a new field for the employment of Government balances. What we want to do is to enlarge the opportunities available for the employment, in enterprises indigenous and beneficial to the country, of capital, both English and Native. It will be for the latter to profit by the occasion. The Government cannot do more than open the door. It will then be for the investing public to walk in.

"And here I am tempted to indulge in a further reflection. An examination of the existing system leads me to doubt whether the banking institutions of India are at all adequate to the growing needs of the country. This is a conviction that is gaining ground outside of India, and that I believe already exists in India itself. You will find substantial testimony to it in the speech delivered by the Secretary of State in the House of Commons in the Budget Debate three weeks ago, and you will notice that his sentiments on the subject were re-echoed by his predecessor, Sir Henry Fowler. Here we are at the end of the nineteenth century, with 22,500 miles of railway opened in this country; with the telegraph wires connecting all our important cities and centres; with business operations being conducted every year on a larger and increasing scale. Moreover, we are looking forward, if we can settle our currency difficulties, to a considerable expansion of financial and industrial enterprise. And yet, in respect of banking, it seems to me that we are behind the times. We are like some old-fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbrous compartments. This is a state of affairs which it appears to me can hardly continue. I can well believe that local interests will require to be consulted, and we must be careful to see that no injustice is done. But I cannot think that any sectional prepossessions should be allowed to stand in the way of a consolidation and concentration of banking facilities which strike me as being required in the interests of the business accommodation and credit of the country. Should we succeed in effecting any such amalgamation—should we get any such central bank, established on a sterling basis, giving us access to the London market—then I think we might with safety dispense with many of the existing restrictions, because we should have, on the hypothesis of a common currency with England, a permanent and stable link between the Indian and English markets. This is a question worthy of serious examination, and which I submit, with these few introductory remarks, to the consideration of the financial and mercantile public."

The motion was put and agreed to.

The Honourable Mr. Dawkins moved that the Bill be passed.

The motion was put and agreed to.

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No. 5124–A., dated 10th November 1899.

From H. HESELTINE, Esq., Assistant Secretary
to the Government of India, Finance and Commerce Department,

to the SECRETARY to the Government of ~~Madras.~~ / ~~Bombay.~~ / ~~Bengal.~~ / ~~North-Western Provinces and Oudh.~~ / ~~the Punjab.~~ / ~~Burma.~~

I am directed to forward a copy of a letter (and enclosures) addressed to the Chambers of Commerce, regarding a proposal to relax the restrictions on the business of the Presidency Banks which are imposed by Sections 36 and 37 of the Presidency Banks Act, 1876, and to request that, with the permission of ~~His Excellency the Governor in Council~~ / ~~His Honour the Lieutenant-Governor~~, the Government of India may be favoured with the views of the Government of on the question at an early date.

Dated 13th November 1899.

From G. D. KER, Esq., Secretary and Treasurer, Bank of Madras, to the SECRETARY to the Government of India, Finance and Commerce Department.

1. My Directors lately submitted, through the Government of Madras, a proposal for the consideration of the Government of India, to amend the Presidency Banks Act, so as to enable the banks to deal in securities issued by the District Boards with the authority of Government; and they observe that, while unable to take this matter into consideration with the formal amendment of the Act then before the Legislative Council, Government received this and other proposals not unfavourably, and "is prepared and "has decided to examine the whole question exhaustively and in no narrow "spirit."

My Directors desire to express their satisfaction at this intention of Government, for they have felt for some time that certain restrictions imposed by the Presidency Banks Act have, to use the words of the Finance Minister, "survived the reasons for their imposition, and do unnecessarily hamper business and enterprise."

My Directors desire now to draw the attention of Government to those provisions of the Act which they think require amendment at the present day, however necessary they may have been at the time the Act was framed and passed.

2. Before detailing these proposals, I am desired to point out what seems to my Directors to be a misapprehension on the part of Government in regard to the amount of the Government balance with this bank relatively to other deposits and to the cash balance.

In his speech at the Legislative Council on 1st September the Honourable Mr. Dawkins said:—

"The Presidency Banks depend to quite an exceptional degree for their cash balances on the Government Account. As Sir James Westland showed, in the busy season nearly 80 to 90 per cent. of these balances are supplied from the Government Account."

His Excellency the Viceroy subsequently remarked:—

"The Presidency Banks are not like ordinary banks. They differ, because the bulk of their cash balances—or what I suppose I may call their loanable capital—is supplied by Government; and because, if we subtract this at any given moment, they are not, as a rule, in possession of sufficient independent capital to enable them to conduct operations on a large scale."

3. These remarks, however appropriate to the time prior to the establishment of Reserve Treasuries, are, my Directors submit, inapplicable to this bank at the present day, for during the years which have passed since the establishment of Reserve Treasuries, the resources of the bank have largely increased, and the Government Account now forms only about 10 per cent. of the working capital. This will be readily seen from the following figures from the statement of affairs of the bank for week ending 30th September last which may be taken as a fair average:—

| | Rs. | a. | p. |
|---|---|---|---|
| Government Balance, Head office - - - | 27,47,316 | 7 | 6 |
| Ditto Branches - - - | 13,13,316 | 12 | 5 |
| TOTAL - - - | 40,60,632 | 3 | 11 |
| Deposits other than Government - - - | 2,58,34,119 | 7 | 3 |
| Capital paid up - - - - - - | 60,00,000 | 0 | 0 |
| Reserve Fund - - - - - - | 24,00,000 | 0 | 0 |
| TOTAL - - - | 3,82,94,752 | 11 | 2 |

4. It will be observed that the proportion of Government Deposits to the total working capital is 10·60 per cent.; and it would be still less if we subtract that portion of the Government Balances which consists of uncurrent coin, copper, and Foreign Circle notes, which are not legal tender. These amounted to over Rs. 4,00,000 on 30th September last.

5. My Directors therefore submit that the Bank of Madras is not dependent upon the Government Balances for its loanable capital in an undue degree.

6. I am now to submit, for the favourable consideration of Government, the following remarks with reference to the Presidency Banks Act, 1876, as amended by Act V. of 1879.

7. *Section* 36, *Clause* (*M. M.*) authorises "the borrowing of money in "India for the purposes of the banks' business and the giving of security "for money so borrowed by pledging assets or otherwise."

My Directors submit that the limitation of this power to India is a restriction which, however necessary when the Act was framed, is no longer so; and that the time has arrived when the power may safely be extended to borrowing in the United Kingdom.

It will be admitted that the strongest banks require at times to pledge securities in order to raise funds to meet unusual requirements; and we have seen in recent years that even the Bank of England has had to do so. A bank whose powers are so restricted as to give it no elasticity in respect to its funds is placed at a very great disadvantage, especially in times of stringency or extraordinary trade demands. The Presidency Banks are in this position. When the financial position is such that a Presidency Bank requires to raise money, no other institution in India is likely to be in a position to lend; and, as Government will give no undertaking to do so, the power to borrow in India is practically of no avail, although the banks always hold ample first-class securities which they can offer as security for loans. Trade is thus often starved and hampered with a very high rate of interest when money could easily be obtained in the London market usually at 3 or 4 per cent. had the banks the necessary power to borrow there.

In making this suggestion my Directors do not lose sight of the fact that the restriction to borrow in India was imposed in view of the risk in exchange, which, at that time, authority to borrow in London would have entailed; but circumstances have changed, and, moreover, it is now an easy matter to avoid any exchange risk by the simple expedient of fixing the rate both ways at the time the transaction is entered into.

My Directors would express the hope that the Government of India will give this suggestion their most favourable consideration, believing, as they do, that it is most necessary, both in the interests of the banks and of trade, that the former should be brought into touch with the London money market.

**Section* 36, *Clauses* (3) *and* (4).—My Directors are of opinion that these clauses of the Act should be amended so as to enable the banks to deal in—

(*a*) the securities of State-aided Railways;
(*b*) securities issued by District Boards with the authority of Government.

In making this suggestion my Directors do so not only in the banks' interests, but in the interests of the Railways and District Boards concerned as well as of the investing public, as permission to the Presidency Banks to deal in these securities would give them a value in the market, which they would not otherwise possess. But I am to add, that it is unlikely that this bank would be able to deal largely in such securities, unless the bank is itself placed in a position to raise money on its assets, as indicated in paragraph 7.

9. If power to borrow in the United Kingdom were sanctioned, the bank would find employment for some of its funds during the slack season by investing in such securities as those mentioned in paragraph 8.

A reference to the accompanying statement (A) will show the marked difference in the earning power of the bank for the first half of the year as

* This proposal was discussed at some length in the subsequent correspondence. The question was settled by the passing of Act I. of 1907 (An Act to amend the Presidency Banks Act) and is no longer of interest. Subsequent passages relating to it are therefore omitted from this collection of papers. The omissions are indicated by rows of asterisks.

compared with the second half. Owing to the course of trade in India, the bank finds full employment for its funds for about six months of the year, while for the remaining six months it has, as a rule, a large unemployed cash balance. This is not satisfactory, and my Directors would like to be in a position to maintain a larger holding of authorised investments throughout the year; but the inability to raise loans on these securities in the busy season is an obstacle to their doing so. If the bank had power to borrow in London, it would have no difficulty in raising funds on these securities, whenever required, at easy rates; and there would be no need to apply to Government for loans.

10. *Section* 37 (*a*) prohibits the bank from making any loan or advance for a longer period than three months. My Directors think that this might safely be extended to six months, as many transactions in the ordinary course of trade cannot be completed within the shorter period; and the necessity which at present exists of allowing renewals entails double stamp duty, &c.

This has been recognised already in the case of Ceylon, for by Section 37 (*f*) this bank is authorised to discount bills having four months to run, if payable in Ceylon.

11. *Section* 37 (*f*). My Directors would suggest that the limit for overdrafts without security be raised from Rs. 2,000 to Rs. 5,000.

The existing low limit prevents the bank from giving temporary accommodation in this form to any constituent, however good.

12. My Directors would also like to see Ceylon Government securities added to the list of those in which this bank is authorised to deal. As bankers to the Ceylon Government in Colombo, my Directors think that the Bank of Madras should be in a position to deal in, and advance money against, their securities. To avoid any possible misapprehension as to the diversion of this bank's capital to a field outside the Madras Presidency, I am here to state that the Colombo branch of the bank not only works entirely on its own resources with funds raised in Ceylon, but, in addition, supplies a considerable amount of capital for the use of the bank in this Presidency.

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A.—*Statement showing the net profits made by the Bank of Madras, during the ten years ended 30th June 1899.*

| Year. | Half-year ended 31st December. | | | Half-year ended 30th June. | | | Total Profits for the Year | | |
|---|---|---|---|---|---|---|---|---|---|
| | Rs. | a. | p. | Rs. | a. | p. | Rs. | a. | p. |
| 1889–90 - - - | 2,26,616 | 13 | 5 | 5,27,991 | 8 | 9 | 7,54,608 | 6 | 2 |
| 1890–91 - - - | 1,01,312 | 15 | 10 | 2,67,180 | 15 | 0 | 3,68,493 | 14 | 10 |
| 1891–92 - - - | 1,09,340 | 15 | 7 | 3,24,603 | 6 | 2 | 4,33,944 | 5 | 9 |
| 1892–93 - - - | 1,63,130 | 3 | 8 | 3,38,039 | 14 | 9 | 5,01,170 | 2 | 5 |
| 1893–94 - - - | 2,36,716 | 12 | 6 | 3,70,303 | 10 | 9 | 6,07,020 | 7 | 3 |
| 1894–95 - - - | 1,82,642 | 13 | 2 | 5,08,797 | 8 | 8 | 6,91,440 | 5 | 10 |
| 1895–96 - - - | 2,15,331 | 0 | 7 | 4,58,828 | 0 | 1 | 6,74,159 | 0 | 8 |
| 1896–97 - - - | 2,51,021 | 10 | 0 | 7,19,161 | 7 | 10 | 9,70,183 | 1 | 10 |
| 1897–98 - - - | 2,90,134 | 6 | 2 | 7,33,508 | 2 | 10 | 10,23,642 | 9 | 0 |
| 1898–99 - - - | 2,22,630 | 3 | 7 | 3,46,017 | 1 | 6 | 5,68,647 | 5 | 1 |
| TOTAL - | 19,98,877 | 14 | 6 | 45,94,431 | 12 | 4 | 65,93,309 | 10 | 10 |
| Average for the past ten years - - - | 199,887 | 12 | 8 | 4,59,443 | 2 | 10 | 6,59,330 | 15 | 6 |

Dated 2nd December 1899.

From W. D. CRUICKSHANK, Esq., Secretary and Treasurer, Bank of Bengal, to the SECRETARY to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt from the Assistant Secretary to the Government of India of a copy of a letter addressed by him to the leading Chambers of Commerce in India, dated 10th ultimo, calling for an expression of opinion on proposals recently made to relax the restrictions on the business of the Presidency Banks imposed by Sections 36 and 37 of the Presidency Banks Act, 1876, and asking the Chambers to consider the matter with special reference to the existing capital of the banks. The letter is accompanied by copies of speeches made by His Excellency the Governor General in Council and the Honourable Financial Member, and I am desired by my Directors to express the satisfaction they experienced on learning that, in the opinion of these high authorities, the restrictions placed by Government on the operations of the banks have, to some extent, survived the reasons for their imposition, and that it has been decided to consider, in no narrow spirit, the claims of the banks for greater freedom of action. They also note that the Secretary of State for India and His Excellency are disposed to adopt the opinion expressed in influential quarters in London that the time has come to revive proposals made on various occasions for the consolidation of the central banking reserves of India by the amalgamation of the Presidency Banks.

My Directors are not at present in a position to discuss this very important question, as the views of the Directors of the other Presidency Banks have not yet been ascertained, but I am to submit, for the information of His Excellency the Governor General in Council, copy of a minute on the subject, dated 1st March 1867, by a former Secretary of the Bank, Mr. George Dickson, and to add that my Directors are prepared to give respectful consideration to any proposals the Government of India may be disposed to make for the concentration in the hands of one institution of the powers now possessed by the three Presidency Banks.

In the meantime it is thought desirable that I should offer some observations on those subordinate questions to which the special attention of the Chambers of Commerce has been drawn, viz. (1) the relaxation of the restrictions which prevent the Presidency Banks investing in, or advancing against, securities issued by "Assisted Railways" and District Boards with the authority of Government; and (2) the enlargement of the capital of the Presidency Banks.

* * * * * * * *

At the same time my Directors are ready to admit that the ordinary resources of the Presidency Banks are liable to be overstrained at periods when great activity of trade is accompanied by exceptional reductions of Government deposits, or when the import of capital is postponed by the prospect of a fall in sterling exchange; and for a long time past they have been anxious to obtain access to some reliable fund or funds to which resort might be had in times of pressure. They are pleased to see that the Government of India are of opinion that it is time that the central banking reserves were expanded, but they regret that the reference to the Chambers of Commerce directs attention only to the permanent capital of the banks, without making any mention of other resources that might be employed not only in strengthening the central banking reserves but in making them more elastic and readily adjustable to the wants of the country.

The resources of the Presidency Banks may be classified as follows:—

1st.—*Shareholders' capital* consisting of paid up capital and reserve funds.

2nd.—*Government Deposits;*

3rd.—*Other Deposits;*

4th.—*Readily expandable resources,* which since 1861 have been confined to the borrowing powers of the banks.

The annexed Abstract Statement of the working of the Bank of Bengal from 1856 will show that for many years past there has been a steady increase in capital, and a considerable, although varying, increase in other deposits; but that the Government deposits, instead of increasing with the improvement in the finances of the country, and the additions to the Government Account work devolving upon the bank, have been greatly curtailed since 1891. I have also to point out that the elastic resources of the bank have been rendered of little value owing to restrictions imposed by the State.

With regard to the relative proportions between the Government deposits and the bank's cash balance, to which reference is made in the speeches of His Excellency and the Financial Member above referred to, I am directed to invite attention to the percentages given in the above statement, from which it will be observed that the average proportion between these deposits and cash balances has decreased considerably of late years. The same return shows further that the proportion of the Government deposits to the Bank's other resources has also decreased in a very marked degree. According to the Weekly Statement published on 28th November 1899 this proportion had then fallen to 11·3 per cent.

While anxious to see the resources of the Presidency Banks increased during periods of active trade, and especially at times of pressure, my Directors consider it doubtful whether any great increase in the permanent banking capital would not, under existing conditions and restrictions, be productive of greater evil than good. A few years ago the bank funds in India were, for a prolonged period, in excess of requirements; and as a plethora of banking capital is apt to encourage the holding back in first hands of produce, including food-grains and the great staple exports, for a rise in prices, and to cause unhealthy speculations in securities, it would appear prudent to ascertain how far the measures lately taken to steady sterling exchange are likely to bring fresh capital to the country before making any considerable addition to the permanent banking funds. In the opinion of my Directors all that the money markets of India want at present is a provision for expanding resources at times of pressure that will tend to adjust the supply of loanable money to the demand both during the busy and slack seasons. This is a pressing want and until it is satisfied the money markets of India will be liable to oscillate between periods of stringency and periods of plethora, and trade will be hampered by corresponding fluctuations in the rates of interest.

In all important commercial countries, with the exception of England, all extraordinary demands for money for local purposes (*i.e.*, for internal requirements as distinguished from a foreign drain) are met by the issue of additional fiduciary notes by the Central Bank or banks, and in England, it is the practice of the executive Government, at time of extreme pressure, to sanction such issues even though it becomes necessary to suspend the operations of the statute law. In Germany these issues are kept within safe limits, by imposing upon the Central Bank a 5 per cent. interest charge for the assistance thus received; and in 1891 Mr. Goschen proposed that similar issues should be legalised in England—a moderate charge to be made for a moderate amount, and a heavy charge for excess issues.

As an illustration of the way in which arrangements similar to those existing in Germany would work in this country, I am instructed to append to this letter an extract from the half-yearly Report of the bank, dated July 1860, from which it will be observed that the measures adopted by the German Parliament to mitigate the severity of monetary pressure, were anticipated by the Bank of Bengal, with the sanction of the Government of India, during the first half of that year. It will be seen that the charge

made for the excess issues of notes sanctioned in 1860 was the same as that adopted by the German Parliament in 1891, and that the action taken by the bank was entirely successful.

In India some facile method of expanding banking resources is all the more necessary, because, owing to the difference between the extent of business transacted during the dry and rainy seasons, and to the large temporary absorption of coin in the produce districts when the important crops are being brought to market, the variation in the demands on the central banking reserves is greater in India than in any other important commercial country.

Prior to 1st March 1862, the Presidency towns of India possessed a bank paper currency capable of being expanded when an increase in the demand for money arose. The Bank of Bengal had the power of issuing currency notes to the extent of two crores, subject only to the proviso that it should keep coin in its vaults to the amount of one-fourth of all claims outstanding payable on demand; and the Banks of Bombay and Madras could also expand the circulation in accordance with the wants of the moment on the same easy terms. But since the paper circulation was taken over by the Government of India on the above-mentioned date, the only means by which the Presidency Banks have been able to enlarge their resources at times of pressure has been by borrowing; and as they hold the central banking reserves in India, and are forbidden to borrow outside India, their powers of borrowing are very limited. The transfer of the Government balances and the management of the Public Debt Office to the banks in lieu of their note issues may have been considered an equivalent as far as the banks were concerned; but this change in the arrangements deprived the Indian markets of the privilege of a monetary circulation capable of facile expansion which all countries except England enjoy, and which, while little missed in a country like England, where the use of money is so largely superseded by bank cheques and transfers, is of supreme importance to a country such as India where, as already explained, the variations in the demands for money are sudden and excessive. When the Reserve Treasuries were formed in 1876, it was hoped that they would furnish a fund on which the Presidency Banks might rely in times of stress, on the conditions laid down in the Comptroller General's letter to the Bank, No. 1361, dated 25th September 1878, a copy of which is appended; and the expansion of the central banking reserves at times of pressure from these funds and from the general treasury balances has been urged of late by witnesses before the Indian Currency Committee, and more recently by the Chairman of the Chartered Bank of India, and by the Indian Chambers of Commerce. This resource, however, while considered sufficient under ordinary circumstances, is liable to fail when advances are most wanted, viz., at times of famine, as, for instance, at the present time; and I am instructed to respectfully suggest that a more reliable resort for money at times of pressure is available in the coin reserve of the Paper Currency Department.

The suggestion which my Directors would make is that, when the bank rate rises to a height that indicates undue pressure, the Presidency Banks may be able to rely on procuring loans through the Comptroller General either from the Reserve Treasury, or, failing this, from the Paper Currency Reserve, at the current rates for demand loans on Government Paper, rising and falling therewith.

In submitting this suggestion my Directors desire me to state that it is made with the sole object of ensuing a steady supply of loanable capital at moderate rates. These loans would yield profit to Government, and benefit all who are interested in a steady money market, while the bank would undertake, without profit to itself, the risk and labour involved. My Directors would also submit that the Paper Currency Reserve is the most suitable fund to devote to this purpose, not only because it is large and steady, and, as, experience has shown, would have been found ample from first to last to have relieved each monetary pressure from which India has suffered, but because it is to the Paper Currency that other nations look for assistance at times of monetary strain, and if effect is given to the proposal now made, the elasticity of the central banking resources, of which the Indian money

markets were deprived by the transfer of the Paper Currency to Government, will be restored.

I am also directed to represent to His Excellency in Council that the power of the Presidency Banks to expand resources when required has been greatly crippled by Section 36, clause *m.m.*, of the Presidency Banks Act of 1876, which forbids them to borrow outside of India. The inconvenience of this restriction became early apparent, and, in September 1877, the three Presidency Banks joined in a memorial to Government praying that they might be empowered—

1st.—To borrow either in England or India;

2nd.—To make remittances to England in payment of the price of stock or other authorised investments, and also in repayment of loans arranged for there.

A copy of the above memorial is submitted with this letter, and I am instructed to point out that the adoption of the gold standard has removed the only important reason for depriving the Presidency Banks of access to the great store of banking capital available in London. I am directed to press respectfully for reconsideration of the decision of the Government to prohibit borrowing in London, and to ask for power to enter upon all sterling operations incidental to borrowing in that market.

In making this request, my Directors would desire me to mention that in the speech of His Excellency the Governor General, to which the attention of the Chambers of Commerce is directed, it is suggested, as one of the reasons for its institution, that the Central Bank would have access to the London market. They are therefore encouraged to entertain the hope that the application of the Presidency Banks for permission to borrow in London will now be favourably received, as access to the London market is quite as essential, if not more so, for the Presidency Banks as for a large Central Bank.

If these three stores of money, viz., the Reserve Treasury Balances, the Paper Currency Reserve, and the London money market, are made available, it is unlikely that banking resources in India will be found deficient. Loans from the Reserve Treasury Balances have occasionally been withheld, my Directors understand, from the Presidency Banks on the ground that the money might be employed in enabling Exchange Banks to postpone purchases of council bills and lower rates, but rules could easily be framed that would guard against any such use of Government money; and if this is considered to be a good reason for withholding temporary accommodation from the Presidency Banks, there might be still greater objection, on the same grounds, to a permanent addition to their capital, such as that referred to in the letter to the Chambers of Commerce.

The paid up capital of the Bank of Bengal is rupees two crores and its Reserve Fund now amounts to rupees ninety-five lakhs—substantial additions having been made to it in recent years. Under Sections 10 and 13 of the Presidency Banks Act, 1876, the proprietors and shareholders have power, with the previous sanction of the Governor General in Council, to increase the capital by special resolution to the extent of one crore of rupees; and if the restrictions as to the class of business open to the Presidency Banks are relaxed and their powers of borrowing are enlarged, the Directors of the Bank of Bengal will watch carefully the effect of these changes on the supply and demand of loanable money, and be ready to submit to the shareholders proposals for obtaining the sanction of Government to enhancing the bank's capital whenever it may appear advisable. They are sanguine that it will be practicable to raise any such additional capital as may be considered necessary by the issue of shares at a considerable premium.

I am to add that, if in the future the Directors find that even this enhanced capital should prove to be insufficient, they will be prepared to approach Government with the object of obtaining larger powers to still further increase it.

In addition to this if it should be considered by the Government of India to be essential that the bank's capital should be placed on a sterling basis, my Directors will ask the shareholders for authority to make application to Government for the necessary powers. If, however, the measures taken

to fix sterling exchange prove effective, it will naturally follow that all Government currency in India will have a sterling basis.

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Enclosure No. (1).

THE PROPOSED AMALGAMATION OF THE PRESIDENCY BANKS.

Mr. Dickson's report dated March 1, 1867, to the Directors of the Bank of Bengal regarding the amalgamation of the Presidency Banks, and which forms the basis of the negotiations pending between the Directors of the Banks of Bengal and Bombay :—

Relative to letter of 27th ultimo from the Honourable David Cowie, with enclosure from Mr. Rustomjee Jamsetjee Jejeebhoy, urging the establishment of a branch of this Bank in Bombay, I have now the honour, in conformity with your directions, to embody in this form the memorandum which I submitted as part of your yesterday's proceedings.

The extension of the Bank's operations to the Bombay Presidency, which is now urged for adoption, in consequence of the untoward position of the Bank of Bombay, must be viewed in two aspects :—

1st.—In the aspect of opening a branch in Bombay, and confining operations to the city alone, together with the probable effect of such action by the Bank of Bengal on the position of the Bank of Bombay and the interests of its shareholders.

2nd.—In the broader aspect of fusing the three Presidency Banks and creating one great bank for India, with active control in Calcutta, in the sense of its being the seat of the Supreme Government.

Assuming, by reason of the embarrassed position of the Bank of Bombay, that it is not equal to meet the monetary requirements of that Presidency, and that you should resolve to occupy the field in consequence, the first question to be solved is whether, under the existing Charter, it is competent to do so.

By the 36th section it is declared that it shall be lawful for the Directors, with the sanction of the Governor General in Council, from time to time to form business agencies and to establish Branch Banks "at such places as they may deem advantageous to the interests of the banks." [N.B.—Confirmed by Mr. Advocate General Cowie when case submitted regarding Bank of Bombay opening at Jubbulpore and Nagpore.] It moreover provides for the conduct and transaction by such branches of the business of the local Government Treasuries, as well as for the management of the paper currency at present in abeyance.

By Section 6 power is given to call up capital to the extent of three crores in all, or 80 lakhs in addition to the amount already paid.

Thus then it is apparent that the occupancy of Bombay is not only competent, but that, under the existing Chapter, you can provide the necessary capital.

I am, however, clearly of opinion that such action on the part of this bank would infallibly end in the total collapse of the Bank of Bombay. Its connection with Government is limited to one year, and as public confidence is undeniably gone, I fear that there exists no probable hope of extrication from their present embarrassments, but almost the certainty of a tedious and costly wind up, should these relations be terminated on the expiry of the year. Meanwhile their ordinary business would be filtered away to the Bank's Agency or other Banking Institutions in Bombay. To the shareholders such a result would inevitably be disastrous. I say so with all the more confidence and freedom, because it is too well known that the value of their remaining capital depends, to a large extent, on the realisation of the assets of insolvent estates, while the liability for impending calls on the shares of joint-stock companies, held in the Bank's name or in the names of its accredited officers, is not yet, I believe, clearly defined, nor ascertained with exactitude.

With such complications before you, I submit that it is more expedient to consider the question in its broader and more extended aspect, with the view of conciliating and conserving, not only existing interests, but of establishing one great Central Bank for all India by abolishing the distinctive names of the several banks, and so merging them all into one under a new Charter and a new name. Before, however, discussing this alternative measure, and seeing that immediate action has become necessary, I submit for consideration that the Bank of Bombay should be approached with a proposal to the effect that, pending the maturing of legislation in connection with a new Charter, a provisional agreement be entered into between the two banks, by which certain privileges should be conceded to the shareholders of the Bank of Bombay, immediately and prospectively, on the same footing as those to be enjoyed by the shareholders of the Banks of Bengal and Madras.

Should the proposal be entertained, and the field left open, in an amicable spirit, I submit that the Bank of Bengal should immediately call up the remaining portion of its capital and allot the whole, rateably, among its own shareholders at a premium of 25 per cent., *i.e.*, rating each share of Rs. 1,000 at Rs. 1,250, or the full share of Rs. 4,000 at Rs. 5,000; thus, according to the present market rate, giving a bonus or surplus on the single share of Rs. 500 and Rs. 2,000 on the full share. This effected, a whole crore is placed at your disposal for taking up the business of the Bank of Bombay in that city at least. Meanwhile the remnant branches [N.B.—Nine branches withdrawn], eleven in number, could be dealt with according to circumstances by being carried on, along with the addition of the Treasury business (never yet conceded to them by Government) should the disclosure of the position, progress, and future prospect of each warrant their prolonged existence.

The present premises in Bombay, at Kurrachee, and the other branches might be taken over, either on the valuation of parties mutually chosen or on lease. Sufficient accommodation would be reserved for affording every facility for the realisation of the outstanding assets by the Bank of Bombay.

On such realisation being effected, or at fixed and progressive dates, I would propose under the agreement to allot to the shareholders of the Bank of Bombay for the time being a crore [nearly their existing capital, which is given at 104 lakhs] of capital at the same rate as that charged to the proprietors of this bank on the call of 80 lakhs, viz., 25 per cent. premium. That is to say, for 125 lakhs, they will receive at present prices 175 lakhs of marketable stock. Nor is it too much, I apprehend, to assume that the proposal now made, if carried out in its integrity, with the sanction of Government, will greatly enhance existing prices. I think a limit of Rs. 2,000 for each single share may reasonably be calculated on. Thus then the two banks, when so united, would have a paid-up capital of four crores and a reserve fund of nearly sixty-five lakhs, a sum, in my judgment, by no means excessive, nor larger than what the bank so constituted ought to hold in relation to its paid-up capital, so as to provide for possible and unforeseen contingencies.

There remains, then, only the Bank of Madras to be dealt with. It is not necessary that any great pressure should be brought to bear upon them towards forming a junction with the United Bank. They might, however, have it in their option to do so on conditions of all but equality with the Bank of Bengal, seeing that the market value of their stock stands relatively to our own as 150 to 175. Provision has been made under their new Charter to extend their capital from 56 lakhs to one crore. This being so, and in contemplation of their business being extended to Ceylon, it is probable that the full amount permissible will ere long be called up. Assuming such to be the case, and bearing in mind that the capital of the United Bank otherwise is four crores, with a reserve of, say, 65 lakhs, the fair and rateable proportion which Madras ought to contribute to the Reserve Fund, along with transfer of guaranteed assets, may fairly be taken at 15 lakhs, thus bringing up the total capital to five crores, and the Reserve Fund to 80 lakhs. A moment's reflection will show that this proposal is both equitable and reasonable. If the additional capital of 44 lakhs is called up

and divided among shareholders of the Bank of Madras on the same terms as those on which the bank proposes to allot the 80 lakhs to our own proprietors, then they realise 11 lakhs, which, added to their existing reserve of, say, five lakhs, gives them 16 lakhs, or one lakh more than the rateable amount proposed to be contributed to the common Reserve Fund.

Into details of management or minor conditions on which the business of the then United Bank should be carried on, it is not necessary to enter at present. One or two points may, however, be shortly noticed.

The nominal capital under the new Charter should be 10 crores, one-half being paid up.

Local Boards would be continued as at the present in Bombay and Madras, but the supreme control and the rules and regulations for the conduct of the business must rest in, and be laid down by, the Board in Calcutta, *i.e.*, that the same rules and conditions under which business is carried on here must be strictly adhered to and be conformed to by Bombay and Madras, and that power to enforce their due observance be specially reserved.

As already observed, Madras may possibly raise objections. I think it would be for the interest of the shareholders of that institution to fall in with the proposal. If, however, they should be of a different opinion, their refusal will in no way affect the carrying out of the proposal as regards Bengal and Bombay. In time Madras must follow.

There are only two points then in the proposed fusion of the banks on which for a moment I dwell, and to which I deem it necessary to call your special attention.

In dealing with the Bank of Bombay, I stipulate, as the radical and indispensable condition of union or absorption, that this bank takes over from them nothing but cash, towards payment of its quota of capital, at such periods as they themselves may elect. Their deposits and legitimate business will follow as a matter of course.

In carrying through negotiations with the Bank of Madras, on the other hand, I not only propose to take over capital, but also their entire existing business, exclusive of past due or irregular advances on simple guarantee of the bank itself.

Should Bombay decline these overtures, which I scarcely think they will do, then of course it remains with Government and yourselves to consider whether it is desirable or politic that the present chronic state of distrust and embarrassment should any longer be tolerated on the other side.

If Government and the Directors should in the last resort resolve to comply with the wishes of a friendly section of the Bombay community, I will be prepared to carry out your instructions, and on very short notice organise a competent staff to commence operations by opening a branch in Bombay.

Having thus dealt with the more practical portion of the question in both its aspects as set forth in the early portion of this minute, I deem it necessary in continuation to advert as shortly as possible to its consideration in a public point of view, and why it humbly appears to me that, in the interests of Government, the bank and the public, it is desirable to have one strong bank for India. First of all, however, it may be well to state that we have at home a class of political economists who hold the theory that, in currency and banking legislation, it is sounder policy so to frame the laws as to encourage the distribution of the banking reserves of a country among several banks, instead of holding them in a single bank. It is not improbable that some people, reasoning by analogy and holding in principle similar views, may propound them in India, while others, who care little about the principle, will, from interested and factious considerations, join again, as they have done before, in decrying the bank.

The question of rival establishments first assumed a practical shape in 1865, when a Commission was appointed by the French Government to inquire into the constitution of the Bank of France, and to report whether there should be another and great rival Bank of Issue to that institution.

The Bank of France, in a stricter sense than the Bank of England, has a monopoly of banking throughout the Empire, and of the paper circulation, which is unrestrained by legislative enactment; and which moreover the bank itself issues and is bound to protect.

The Bank of England in like manner issues its own notes and protects their convertibility, but the law defines the proportion of securities and bullion which must be held against the paper circulation and separate the issue from the Banking Department. But the Bank of England in respect of the legal fetters imposed, and that it pays to Government a large proportion of the profits arising from the paper currency, may in a sense be looked on rather as the agents of Government for doing the retail work connected with the Paper Currency, than the pure issuer of its own notes. Both banks have not few exclusive privileges; some of those of the Bank of England are of an enduring nature, while as bankers to Government their agreement extends to 25 years certain. Both banks are the two great reservoirs in which the banking reserves of both nations are held.

The Commission of the French Government, after taking evidence from the ablest financiers and some of the more notable political economists in France and England, have reported against the proposed creation of another rival bank in that country, and I venture, it may be with great presumption, to doubt if the monied classes, including the representatives of the London and Provincial Banks, will, in 1867, gainsay the evidence which they gave in 1848 and 1865 in favour of the constitution of the Bank of England so far at least as the Banking Department is concerned.

The only countries, so far as I know, where there is a semblance of proof to support the theory are America and Canada. As regards the former, I have to remark that prior to 1861 banking and currency were entirely free, resulting, as we all know, in great public injury, bad faith, and bankrupt corporations. In 1861 Mr. Chase, the then Secretary of State, succeeded in raising forty-four millions out of the one hundred and nine millions requisite for the financial wants of that year. Of the amount so raised, thirty-three millions, or 75 per cent., was taken by the Bank of the Federal States, but they were too poor to continue the process, because both their capital and deposits were perfectly inadequate to the demands of Government. The English market was tried without success, and American capitalists could afford no further assistance. In this dilemma the expedient was fallen upon of practically confiscating the note circulation of the whole of the banks; the legal tender, Greenbacks, were forced upon the country, and thus a new loan of a large amount was raised. Of the extraordinary depreciation in the value of the paper and the enhancement of gold measured in Greenbacks which followed I need not remind you, but it yet remains to be seen whether the compulsory measure resorted to in time of war, and which requires the fifty-nine banks to hold their reserves in notes, not convertible into gold but receivable for taxes, is likely to prove successful or beneficial to the country. The last return quoted by the *Economist* of 25th August last shows that only—

| £ |
|---|
| 1,700,818 in gold with |
| 16,168,102 legal tender notes of the State |

or a total of £17,868,920 was held against upwards of forty millions of deposits and something over five millions of the note circulation of the banks, the residue of former issues.

Eschewing the doubtful policy adopted by America, the Government of Canada, although it abolished the privilege of issue enjoyed by the several banks and took the paper issues into his own hands, yet deemed it fair to afford liberal compensation to the several banks and entrusted the management of the Paper Currency to the largest bank in the provinces, viz., the Bank of Montreal, at an annual charge not exceeding one per cent. on the average amount actually in circulation. [N.B.—Bank of Bengal commission only $\frac{3}{4}$ per cent.]

Unlike the Governments of England, France, and Canada, but in some degree pursuing a policy akin to that of America, the Government of India,

has taken the right of issue as well as the management of the Paper Currency of India to itself.

Assuming then that the theory under review is in itself sound and can be successfully carried into practice by the Government of India, I observe that the separation of currency from banking cannot be more complete in any country.

All exclusive privileges have been taken from the Presidency Banks which are simply bankers to Government in the same way as they are bankers to the merchants and local banking institutions in the several Presidencies. There is, however, this important distinction, that under a terminable agreement and certain penalties Government covenants to keep a minimum floating balance at their credit with the several banks.

Otherwise, and for services performed, the relations of Government with the banks are intimate, and, I add, are, or ought to be, valuable to both.

In Calcutta—and I assume throughout the chief cities in India—the Presidency Banks are the holders of almost the entire reserves of those who keep a banker.

Banking in India is entirely free, and has had of late years, as we all know, a very remarkable development. If, however, we go back a little and trace its rise, progress, and fall, it will be found that, without almost an exception, every European Bank started in this country soon lost its distinctive character of a bank proper and either become insolvent or found itself established in London as a Bank of Exchange. These banks have ramified connections with the seaports of India, the Straits, China, Australia, Japan, California, and elsewhere. Most of them have the privileges of a note circulation beyond the confines of India, and everywhere they more or less cultivate a local banking business.

As a convenience, and on the obvious ground of economy, the Indian branches, however, choose to keep their cash reserves with the Presidency Banks, and in times of difficulty—I put the matter broadly—they calculate on receiving assistance from their bankers.

Taking then matters as we now find them, the question is raised, "Are "there in India the materials for enforcing, by legislation, uniformity in "the rule under which each bank must keep its own reserves in Government "notes, and is it desirable or expedient to encourage such legislation"?

To obtain uniformity, the law must over-ride the existing charters of those banks and compel the weekly publication of assets and liabilities, so that the proportion of silver or Government legal tender notes may be assimilated to the amount of advances outstanding. Even if the above difficulty can be got over, I apprehend that the opposition of the banks would be very formidable. They would be obliged under such a law to throw on the market that large portion of their reserves which they hold at present in the interest-bearing securities of Government and convert them into legal tender notes which do not bear interest. Neither Government nor the banks could possibly gain by such a measure. I question indeed if in reality it would not prove futile so long as the Banks can without let or hindrance, create on comparatively small capitals a very large superstructure of credit by valuing on each other according to their necessities either on demand or at long currencies.

Is it then expedient to hold out sufficient inducements to new institutions to establish themselves in this country, keep their own reserves, and confine their operations exclusively to India in the same way that the Presidency Banks, the Banks of England and France, and in America, restrict their operations.

I think not. All past experience, while banking *has been entirely free*, goes against the theory. Government might indeed sever the existing connection, create a rival establishment, and give to it the restricted use of their balances, but that would simply be a change of bankers and probably result in the serious weakening of one bank only to magnify another or rival establishment.

Purely local banks, with branches throughout the Presidencies, to be really useful and advantageous to the country, must be established and

conducted on sound principles. To such banks the prestige of Government is of the last importance.

You cannot, I submit, institute a fair analogy between England or France or America and India, nor, with safety or advantage, force upon India theoretical legislation in banking or currency.

The usages, customs, and habits of the people of this country, who are a nation of traffickers in money as well as in the inland exchanges, are opposed to the rapid growth of purely western customs and institutions. They must ever retain in their own hands, against all competitors, by far the largest portion of the purely banking operations in India, and legislation cannot possibly reach them. They have sufficient influence either by active combination or passive inaction, to defeat any movement of the kind, unless indeed they find that it observes their own interests.

The question appears, then, to be narrowed to this issue—Is it preferable with a view to the unholding of separate reserves, to continue the three banks in the respective Presidencies, or to fuse them into one?

The unfortunate position of the Bank of Bombay, apart from all other considerations, renders it, in my opinion, not only preferable, but necessary. The element of uncertainty regarding such a large portion of its assets, the impending liability for heavy calls, the impaired credit and crippled resources of the bank, and, beyond all, its inability to cope with recurring monetary crises, must, from time to time, bring its position prominently before the public and tend to unpleasant discussions with Government. The reserve of the bank, with numerous branches and a capital reduced by nearly one-half, cannot possibly be maintained at the same high range as that under the amalgamated bank, which provides so much additional capital specially for Bombay requirements. Nor can Government have perfect freedom in dealing with their balances at Bombay so long as public confidence is wanting in the stability of that bank as now constituted. The uniformity in administration which must follow on the fusion of the banks will certainly tend, more than divided action, to maintain public credit and to restore broken confidence by attracting deposits and thereby enlarging the reserves of the bank.

A multiplicity of banks beyond the Presidency towns, purely local in their character and in their business, who would be compelled by law to hold a certain amount of reserve proportioned to their advances, is, I repeat, in my opinion not attainable or possible here.

It is a delicate point to insist on, but I add that I do not believe that the Paper Currency can ever have a fair trial in India until the management of it is restored to the banks. Government began at the wrong end by prematurely appropriating to itself the supposed large profits of an *imperfect circulation*. Accepting it as an accomplished fact, I nevertheless, with much deference, adhere to my frequently recorded opinion that our currency legislation has been wrongly directed, and that it is only through the agency of the banks that a note circulation can ever have a thorough development throughout India.

Banking monopoly is not possible. No Government, so far as the mere banking connection is concerned, stands more loosely towards a State Bank than does the Government of India towards the Presidency Banks of India. If Government or the public are aggrieved, if terms more favourable can be obtained by Government at the termination of the short existing agreement, the connection may be at once ended as a matter of course.

To obtain and preserve that connection, the amalgamated bank must necessarily make sacrifices, which, under other circumstances, would be unnecessary. That the connection is now advantageous to Government, the bank, and the public is admitted, and that it will be much greater under a united bank is set forth herein.

Banks who have to consult only their own safety and profits, cannot afford to extend help to others in times of difficulty.

To recapitulate then: with such a large capital actually provided and liable to further calls in case of need with an adequate reserve fund in the event of unforeseen losses arising either from the ordinary business or from

political disturbances, I submit that the proposed united bank would be equal at all times and under all circumstances, not only to meet the legitimate requirements of commerce, but by unity of action, and under the eye of the Supreme Government, to control those recurring monetary crises, which although hitherto more felt in the Bombay Presidency, yet very closely and intimately affect the interest and position of all.

Government would have an absolute guarantee for the unvarying management of their treasuries under one controlling power; a certainty of greater economy in the use and distribution of their balances throughout India; uniform management of the Public Debt under the same safeguard, but with enlarged security and a powerful agent in aiding them in all their financial measures, not only at the seat of Government, but combined action throughout the whole country; nor do I despair of (what I venture to term) sounder views than those which at present prevail being ere long adopted by Government, and of the management of the Paper Currency being restored to the bank on terms somewhat similar to those which it formerly enjoyed, or resembling in a modified degree the privileges of the Banks of England and Montreal.

In too many banks, purely European, the wealthy natives and merchants have of late manifested unmistakeable distrust, and it is submitted, with confidence, that in legislating for India, respect must be paid to their usages, habits, and prejudices. They have never distrusted the Bank of Bengal. Its extension on a perfectly sound and wider basis, combined with a prolongation of the existing happy combination of official and mercantile experience in the Board of Directors, will, it is submitted, tend materially to the progress of India.

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Enclosures Nos. 2 and 3.

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Enclosure

Abstract Statement of the Working of

| Year. | Number of Branches. | Capital. | Reserve Fund. | *Weekly average amount of Bank of Bengal Notes and Post Bills Out-standing.* | Weekly average of Government Balance at Head Office and Branches. | Weekly average of other Deposits, Post Bills, and Bank of Bengal Notes from 1856 to 1861. | Weekly average of Mercantile Bills Discounted current. | Weekly average of advances by Loans and Cash Credits on Government and other authorised Securities. | Weekly average of Bank's Invest-ments. | Weekly average of all advances including Bank's Invest-ments. |
|---|---|---|---|---|---|---|---|---|---|---|
| 1856 | — | 1,07,00,000 | 3,96,498 | *1,50,88,217* | — | 2,30,15,692 | 16,76,774 | 1,95,33,758 | 17,28,660 | 2,29,39,192 |
| 1857 | — | 1,07,00,000 | 4,31,234 | *1,47,44,312* | — | 2,35,35,991 | 10,83,757 | 2,03,13,607 | 20,91,796 | 2,34,88,560 |
| 1858 | — | 1,07,00,000 | 2,40,538 | *1,48,37,940* | — | 2,58,36,049 | 9,40,645 | 1,72,46,469 | 26,00,128 | 2,07,87,242 |
| 1859 | — | 1,07,00,000 | 2,39,926 | *1,66,66,822* | — | 2,89,51,493 | 8,90,878 | 1,88,39,921 | 41,83,392 | 2,39,14,191 |
| 1860 | — | 1,07,00,000 | 2,42,260 | *1,76,41,046* | — | 3,09,69,184 | 11,19,818 | 1,78,42,352 | 12,96,729 | 2,02,58,899 |
| 1861 | — | 1,07,00,000 | 2,19,873 | *1,73,52,008* | — | 2,93,76,290 | 13,18,163 | 1,50,91,609 | 25,71,751 | 1,89,81,523 |
| 1862 | 5 | 1,09,96,909 | 16,32,570 | — | 4,50,13,043 | 1,25,79,493 | 40,18,585 | 1,26,27,898 | 93,53,855 | 2,60,00,338 |
| 1863 | 9 | 1,09,90,909 | 13,35,241 | — | 3,50,55,740 | 1,50,12,940 | 81,45,964 | 1,04,63,595 | 98,62,886 | 2,84,72,445 |
| 1864 | 10 | 2,20,90,000 | 17,67,132 | — | 1,64,79,709 | 1,79,90,224 | 90,81,842 | 1,50,56,152 | 46,28,931 | 2,87,66,925 |
| 1865 | 11 | 2,20,00,000 | 17,23,225 | — | 1,45,71,476 | 2,55,94,750 | 96,24,030 | 1,43,90,209 | 38,35,706 | 2,78,49,945 |
| 1866 | 15 | 2,20,00,000 | 19,68,598 | — | 1,30,62,561 | 2,41,44,224 | 1,24,55,251 | 1,29,05,965 | 50,59,337 | 3,04,26,553 |
| 1867 | 16 | 2,20,00,000 | 18,51,414 | — | 1,21,99,640 | 3,72,19,252 | 1,06,69,548 | 78,64,431 | 94,98,482 | 2,80,32,461 |
| 1868 | 18 | 2,20,00,000 | 17,62,947 | — | 1,17,77,897 | 4,69,54,417 | 1,35,08,383 | *1,41,10,165 | 69,58,825 | 3,45,77,373 |
| 1869 | 18 | 2,20,00,000 | 15,80,818 | — | 1,05,87,507 | 3,17,52,726 | 1,36,53,397 | 87,66,536 | 88,25,391 | 3,12,45,324 |
| 1870 | 18 | 2,20,00,000 | 15,67,789 | — | 2,16,41,473 | 3,11,54,074 | 1,81,92,250 | 84,62,007 | 92,56,159 | 3,59,10,416 |
| 1871 | 19 | 2,20,00,000 | 15,41,089 | — | 4,56,05,290 | 2,53,41,121 | 1,94,82,935 | 1,38,27,913 | 1,06,59,946 | 4,39,70,794 |
| 1872 | 18 | 2,20,00,000 | 15,07,883 | — | 4,28,03,284 | 2,95,79,498 | 1,76,91,657 | 1,23,76,715 | 1,36,47,679 | 4,37,16,051 |
| 1873 | 20 | 2,20,00,000 | 15,54,746 | — | 3,92,21,988 | 2,76,57,047 | 2,15,49,657 | 79,56,533 | 1,55,00,493 | 4,50,06,683 |
| 1874 | 19 | 2,20,00,000 | 16,07,197 | — | 3,11,25,631 | 2,57,29,138 | 1,83,69,244 | 1,11,57,754 | 1,50,31,761 | 4,45,58,759 |
| 1875 | 19 | 2,20,00,000 | 19,03,816 | — | 3,63,96,612 | 2,51,21,700 | 1,88,27,999 | 1,23,00,521 | 1,61,12,061 | 4,72,40,536 |
| 1876 | 18 | 2,06,66,660 | 16,72,639 | — | 3,12,65,347 | 2,14,68,595 | 1,84,11,090 | 1,07,40,018 | 1,54,13,474 | 4,45,64,582 |
| 1877 | 15 | 2,00,00,000 | 20,00,000 | — | 2,13,99,383 | 2,02,41,202 | 1,93,58,152 | 99,98,618 | 1,08,64,944 | 4,02,21,714 |
| 1878 | 15 | 2,00,00,000 | 20,27,559 | — | 2,31,85,255 | 2,72,97,545 | 2,15,07,516 | 1,01,56,849 | 1,09,46,299 | 4,26,10,664 |
| 1879 | 15 | 2,00,00,000 | 22,90,200 | — | 2,69,90,164 | 2,58,40,321 | 1,94,37,240 | 1,53,92,791 | 93,59,375 | 4,41,89,406 |
| 1880 | 15 | 2,00,00,000 | 25,12,209 | — | 2,33,06,607 | 3,04,17,173 | 1,69,47,061 | 1,22,45,219 | 1,08,81,832 | 4,00,74,112 |
| 1881 | 15 | 2,00,00,000 | 30,14,966 | — | 2,39,89,158 | 3,04,10,134 | 2,06,13,898 | 1,09,83,819 | 1,35,80,247 | 4,51,77,964 |
| 1882 | 15 | 2,00,00,000 | 35,11,746 | — | 2,45,68,756 | 2,62,08,255 | 2,34,46,774 | 1,22,60,321 | 1,17,82,236 | 4,74,89,331 |
| 1883 | 15 | 2,00,00,000 | 40,09,606 | — | 2,53,91,185 | 2,46,32,394 | 2,14,19,365 | 1,54,93,048 | 1,20,37,339 | 4,89,49,752 |
| 1884 | 15 | 2,00,00,000 | 41,59,271 | — | 2,02,71,655 | 2,36,81,694 | 1,71,91,978 | 1,78,25,534 | 99,94,745 | 4,50,12,257 |
| 1885 | 15 | 2,00,00,000 | 41,57,265 | — | 1,85,94,375 | 3,05,33,438 | 1,64,12,300 | 1,75,04,772 | 1,10,37,609 | 4,49,54,681 |
| 1886 | 15 | 2,00,00,000 | 46,56,605 | — | 2,35,71,496 | 3,20,76,578 | 2,06,41,079 | 1,86,02,778 | 1,15,01,714 | 5,27,45,571 |
| 1887 | 15 | 2,00,00,000 | 50,52,760 | — | 1,98,25,014 | 3,48,14,252 | 2,10,21,538 | 1,72,33,096 | 1,27,69,587 | 5,10,24,221 |
| 1888 | 15 | 2,00,00,000 | 54,49,639 | — | 2,07,01,740 | 3,81,10,280 | 2,82,19,540 | 1,51,77,100 | 1,26,65,620 | 5,60,62,260 |
| 1889 | 15 | 2,00,00,000 | 58,00,000 | — | 2,19,57,000 | 3,23,05,547 | 2,57,60,528 | 2,10,71,585 | 98,88,735 | 5,67,20,848 |
| 1890 | 15 | 2,00,00,000 | 47,00,000 | — | 2,01,12,207 | 4,38,96,000 | 1,67,81,830 | 1,97,60,452 | 1,53,76,660 | 5,19,18,942 |
| 1891 | 15 | 2,00,00,000 | 47,00,000 | — | 2,06,91,830 | 6,66,52,377 | 2,14,37,075 | 1,46,50,981 | 1,85,35,490 | 5,46,23,546 |
| 1892 | 15 | 2,00,00,000 | 49,00,000 | — | 1,86,01,528 | 5,48,86,603 | 2,20,87,283 | 1,96,80,622 | 1,50,01,415 | 5,67,69,320 |
| 1893 | 16 | 2,00,00,000 | 56,00,000 | — | 1,78,90,150 | 4,95,83,207 | 2,36,66,792 | 2,26,83,641 | 1,39,77,830 | 6,03,28,263 |
| 1894 | 17 | 2,00,00,000 | 63,50,000 | — | 1,87,72,981 | 4,41,66,818 | 2,31,04,163 | 2,19,38,672 | 1,35,77,818 | 5,86,20,653 |
| 1895 | 17 | 2,00,00,000 | 68,50,000 | — | 1,94,95,634 | 5,59,56,942 | 2,84,15,192 | 2,29,40,442 | 1,46,16,942 | 6,59,72,576 |
| 1896 | 17 | 2,00,00,000 | 76,00,000 | — | 1,93,75,488 | 5,74,20,293 | 2,93,25,010 | 3,06,74,635 | 1,25,27,555 | 7,25,27,200 |
| 1897 | 17 | 2,00,00,000 | 83,50,000 | — | 1,45,75,454 | 5,37,17,628 | 1,38,63,741 | 4,13,95,696 | 1,21,10,167 | 6,73,69,604 |
| 1898 | 17 | 2,00,00,000 | 91,00,000 | — | 1,75,93,089 | 4,84,59,110 | 1,52,82,094 | 4,09,40,024 | 1,13,99,164 | 6,76,21,282 |
| 1899 | — | — | — | — | — | — | — | — | — | — |
| 1900 | — | — | — | — | — | — | — | — | — | — |

* Increase caused by special advances to Government

No. 4.

the Bank of Bengal from 1856.

| Gross Profits at Head Office and Branches. | Charges exclusive of Income Tax. | Per-centage of Charges to Gross Profits. | Income Tax. | Net Profits at Head Office and Branches. | Average Cash Balance. | Average proportion of Cash to Liabilities. | Average proportion of Cash and Government and other authorised securities to Liabilities. | Average proportion of Government Deposits to Bank's Capital, Reserve Fund, and Total Deposits. | Average proportion of Government Balances to Cash. | Per cent. per annum of net profits on Capital. | Dividend per cent. per annum paid. | Average of Bank's rate of Interest. | Year. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 15,81,049 | 1,76,414 | 11·192 | — | 14,04,635 | 1,13,30,922 | 48·30 | 57·5 | — | — | 13·130 | 11·25 | 6·512 | 1856 |
| 17,19,358 | 2,04,509 | 11·896 | — | 15,14,850 | 1,02,37,032 | 43·70 | 53·8 | — | — | 14·156 | 12·50 | 6·994 | 1867 |
| 14,57,960 | 2,19,304 | 15·042 | — | 12,38,656 | 1,62,46,359 | 62·10 | 72·9 | — | — | 11·583 | 11·75 | 6·143 | 1858 |
| 16,39,744 | 2,08,995 | 12·745 | — | 14,30,750 | 1,60,73,564 | 54·70 | 70·3 | — | — | 13·370 | 12·00 | 4·874 | 1859 |
| 14,01,612 | 2,35,127 | 16·771 | 11,223 | 11,42,707 | 2,13,32,779 | 67·10 | 71·2 | — | — | 10·677 | 10·75 | 4·233 | 1860 |
| 12,52,358 | 2,08,247 | 16·625 | 43,266 | 10,00,845 | 2,14,88,729 | 72·40 | 81·3 | — | — | 9·349 | 9·63 | 4·171 | 1861 |
| 17,06,063 | 3,22,530 | 18·901 | 58,128 | 13,33,533 | 4,52,80,401 | 76·10 | 90·9 | 64·1 | 99·4 | 12·583 | 13·00 | 5·139 | 1862 |
| 21,94,939 | 4,01,628 | 18·297 | 47,022 | 17,93,310 | 3,52,09,646 | 67·50 | 86·6 | 56·1 | 99·5 | 16·313 | 13·50 | 5·511 | 1863 |
| 28,46,099 | 4,90,519 | 17·234 | 32,456 | 25,52,203 | 2,44,41,598 | 66·90 | 79·7 | 28·2 | 67·3 | 15·286 | 15·00 | 8·686 | 1864 |
| 27,76,085 | 5,35,710 | 19·297 | 16,602 | 22,40,375 | 3,65,09,958 | 87·60 | 96·9 | 22·8 | 39·9 | 10·177 | 10·00 | 6·949 | 1865 |
| 39,03,330 | 6,65,695 | 17·052 | — | 32,37,635 | 2,92,69,295 | 75·70 | 88·8 | 21·3 | 44·6 | 14·714 | 13·00 | 9·147 | 1866 |
| 26,83,972 | 7,67,820 | 28·604 | — | 19,16,152 | 4,34,67,042 | 87·00 | 106·1 | 16·6 | 28·0 | 8·708 | 8·50 | 5·052 | 1867 |
| 28,21,833 | 8,87,145 | 31·438 | — | 19,34,688 | 3,65,87,203 | 73·60 | 87·9 | 14·2 | 32·1 | 8·792 | 8·50 | 5·845 | 1868 |
| 24,66,688 | 9,07,929 | 36·807 | 16,779 | 15,58,759 | 3,35,26,387 | 77·80 | 98·4 | 16·0 | 31·5 | 7·083 | 6·50 | 5·996 | 1869 |
| 26,89,679 | 9,04,654 | 33·630 | 47,109 | 17,85,024 | 3,92,58,985 | 77·65 | 90·1 | 28·3 | 55·1 | 8·109 | 7·25 | 5·735 | 1870 |
| 28,76,191 | 9,04,068 | 31·432 | 24,631 | 19,72,123 | 4,90,16,633 | 68·30 | 83·2 | 48·2 | 92·9 | 8·964 | 7·00 | 4·718 | 1871 |
| 31,44,408 | 9,39,187 | 29·865 | 20,400 | 22,05,221 | 4,91,27,094 | 67·55 | 85·9 | 44·6 | 87·1 | 10·250 | 9·50 | 4·963 | 1872 |
| 25,14,368 | 9,23,736 | 36·734 | 3,500 | 15,90,632 | 4,32,04,026 | 63·95 | 86·8 | 43·3 | 90·7 | 7·229 | 7·50 | 3·935 | 1873 |
| 33,01,093 | 9,22,938 | 27·958 | — | 23,78,155 | 3,49,30,156 | 60·15 | 83·6 | 38·6 | 89·1 | 10·807 | 9·75 | 6·222 | 1874 |
| 31,71,811 | 9,12,280 | 28·760 | — | 22,59,531 | 3,69,55,871 | 59·05 | 85·2 | 42·6 | 98·4 | 10·271 | 8·50 | 5·656 | 1875 |
| 31,04,382 | 9,16,699 | 29·563 | — | 21,87,682 | 2,90,04,455 | 53·95 | 83·1 | 41·6 | 107·7 | 10·599 | 8·00 | 6·763 | 1876 |
| 31,53,574 | 8,82,402 | 27·979 | — | 24,12,015 | 2,20,28,998 | 51·60 | 76·9 | 33·6 | 97·1 | 12·057 | 9·00 | 8·398 | 1877 |
| 29,02,691 | 8,84,912 | 30·484 | — | 20,17,780 | 3,09,42,664 | 59·35 | 85·2 | 31·9 | 74·9 | 10·089 | 9·00 | 5·282 | 1878 |
| 34,67,991 | 9,02,308 | 26·016 | — | 25,65,683 | 2,89,47,127 | 54·65 | 72·5 | 35·9 | 93·2 | 12·828 | 9·50 | 6·345 | 1879 |
| 28,67,805 | 9,14,924 | 30·901 | — | 19,52,881 | 3,77,37,433 | 64·70 | 92·7 | 30·5 | 61·7 | 9·760 | 8·50 | 4·649 | 1880 |
| 34,66,169 | 9,32,219 | 26·891 | — | 25,33,950 | 2,90,04,680 | 52·55 | 76·9 | 30·9 | 82·7 | 12·667 | 10·00 | 5·289 | 1881 |
| 33,47,805 | 9,00,485 | 26·927 | — | 24,47,320 | 2,47,98,761 | 47·30 | 70·3 | 33·0 | 99·0 | 12·234 | 9·50 | 6·599 | 1882 |
| 34,40,268 | 9,07,499 | 26·376 | — | 25,32,769 | 2,35,22,957 | 45·00 | 67·8 | 34·2 | 107·9 | 12·661 | 9·50 | 6·777 | 1883 |
| 32,66,395 | 9,29,431 | 28·448 | — | 23,36,963 | 2,19,30,940 | 47·90 | 70·3 | 29·7 | 92·4 | 11·682 | 9·50 | 6·379 | 1884 |
| 29,38,243 | 9,34,045 | 31·448 | — | 20,04,198 | 2,79,83,376 | 54·29 | 76·5 | 25·3 | 66·4 | 10·021 | 9·50 | 5·381 | 1885 |
| 36,02,808 | 9,44,575 | 26·786 | 27,940 | 26,58,233 | 2,61,79,549 | 45·53 | 65·4 | 29·3 | 89·9 | 13·292 | 10·00 | 6·037 | 1886 |
| 35,05,364 | 9,98,798 | 28·495 | 46,697 | 25,06,566 | 2,80,07,524 | 48·67 | 71·6 | 24·8 | 70·7 | 12·531 | 10·00 | 5·639 | 1887 |
| 34,17,819 | 9,63,957 | 28·203 | 46,114 | 24,53,862 | 2,72,81,300 | 44·52 | 65·8 | 24·5 | 75·8 | 12·271 | 10·00 | 5·460 | 1888 |
| 40,15,936 | 10,10,133 | 25·153 | 44,860 | 29,60,942 | 2,21,31,407 | 39·16 | 55·3 | 27·4 | 99·2 | 14·804 | 10·00 | 6·992 | 1889 |
| 35,01,260 | 10,41,294 | 29·741 | 47,173 | 24,12,733 | 3,69,48,984 | 52·20 | 78·3 | 22·6 | 54·4 | 12·063 | 9·50 | 5·790 | 1890 |
| 27,57,068 | 10,26,626 | 37·236 | 33,322 | 16,97,120 | 5,35,69,850 | 60·15 | 82·0 | 18·4 | 38·6 | 8·485 | 8·00 | 3·062 | 1891 |
| 31,34,834 | 10,22,198 | 32·607 | 53,412 | 20,59,194 | 4,09,80,304 | 52·56 | 72·7 | 18·9 | 45·3 | 10·295 | 9·00 | 3·499 | 1892 |
| 40,51,810 | 10,27,633 | 25·362 | 66,177 | 29,57,999 | 3,14,38,726 | 43·22 | 64·2 | 19·1 | 56·8 | 14·789 | 10·00 | 4·881 | 1893 |
| 41,00,805 | 11,27,973 | 27·506 | 64,837 | 29,07,995 | 2,83,39,868 | 42·90 | 61·8 | 21·0 | 66·1 | 14·539 | 10·00 | 5·394 | 1894 |
| 37,92,315 | 11,92,856 | 31·455 | 63,667 | 25,35,792 | 3,47,51,403 | 44·76 | 63·6 | 23·6 | 56·1 | 12·679 | 10·00 | 4·329 | 1895 |
| 42,39,673 | 12,06,058 | 28·446 | 76,549 | 29,57,065 | 3,01,84,269 | 37·80 | 53·5 | 18·5 | 64·1 | 14·785 | 10·00 | 5·691 | 1896 |
| 41,65,500 | 11,98,418 | 28·770 | 75,266 | 28,91,816 | 2,75,28,907 | 39·00 | 56·0 | 15·0 | 52·1 | 14·459 | 10·00 | 7·925 | 1897 |
| 41,49,567 | 11,75,954 | 28·339 | 77,632 | 28,95,981 | 2,60,29,317 | 37·90 | 54·5 | 18·4 | 67·6 | 14·479 | 10·00 | 8·065 | 1898 |
| — | — | — | — | — | — | — | — | — | — | — | — | — | 1899 |
| — | — | — | — | — | — | — | — | — | — | — | — | — | 1900 |

in connection with the Abyssinian Expedition.

Enclosure No. 5.

Statement of the Affairs of the Bank of Bengal, for the week ending 28th November 1899.

| Liabilities. | | | | Rs. | a. | p. |
|---|---|---|---|---|---|---|
| Capital paid-up | | | | 2,00,00,000 | 0 | 0 |
| Reserve Fund | | | | 95,00,000 | 0 | 0 |
| | Rs. | a. | p. | | | |
| Public Deposits at Head Office | 67,93,864 | 15 | 5 | | | |
| Ditto Branches | 49,99,885 | 12 | 0 | 1,17,93,750 | 11 | 5 |
| Other Deposits at Head Office and Branches | | | | 5,98,83,473 | 9 | 6 |
| Bank Post Bills, &c. | | | | 1,29,701 | 10 | 6 |
| Sundries | | | | 27,08,995 | 14 | 2 |
| Total | | | | 10,40,15,921 | 13 | 7 |

| Assets. | | | | Rs. | a. | p. |
|---|---|---|---|---|---|---|
| Government Securities | | | | 39,87,646 | 0 | 0 |
| Other authorised Investments | | | | 81,81,865 | 8 | 0 |
| Loans on Government and other authorised Securities | | | | 2,06,43,082 | 11 | 5 |
| Accounts of Credit on other authorised Securities | | | | 2,22,18,281 | 13 | 11 |
| Bills discounted and purchased | | | | 1,43,48,678 | 13 | 10 |
| Balances with other Banks | | | | 9,76,845 | 9 | 0 |
| Bullion | | | | 4,851 | 10 | 7 |
| Dead Stock | | | | 13,32,511 | 3 | 4 |
| Stamps | | | | 9,349 | 14 | 9 |
| Sundries | | | | 16,28,889 | 4 | 11 |
| | | | | 7,33,32,002 | 9 | 9 |
| | Rs. | a. | p. | | | |
| Cash and Currency Notes at Head Office | 1,43,94,021 | 0 | 7 | 3,06,83,919 | 3 | 10 |
| Cash and Currency Notes at Branches | 1,62,89,898 | 3 | 3 | | | |
| Total | | | | 10,40,15,921 | 13 | 7 |

Bank of Bengal, Calcutta,
30th November 1899.

E. J. Birch,
*Chief Accountant.*

Rate for Demand Loans 6 per cent.
Percentage 41·1.

By order of the Directors,
W. D. Cruickshank,
*Secretary and Treasurer.*

## Enclosure No. 6.

act from the Report, dated 5th July 1860, by the Directors of the Bank of Bengal, for the half-year ending 30th June 1860.

* * * * * * *

he Directors have the pleasure of laying before the Shareholders the t of the bank's operations for the half-year ending 30th June 1860.

During this period the value of money has undergone marked fluctuations. y in January the demand for accommodation showed a decided tendency ncrease, so that the bank's circulation throughout the entire month did fall much short of the limit allowed under the Charter. This fullness of culation rendered it necessary at two successive periods to raise the rates discount and interest from 6 and 7 per cent. to 8 and 9 per cent.

Consequent on the closing of the Government 5½ per cent. Loan on the th February following, the demands on the bank became excessive, and e rates were further increased one per cent. all round. The pressure at is date was greatly aggravated by the sudden abstraction and the locking of nearly 38 lakhs of capital in connection with one of the Government t sales which took place on the 29th February. To meet this extraordinary mand on the resources of the bank, and with the view of affording the most facilities to the public, without adding further to the discount and terest rates, the Directors deemed it expedient to make an arrangement ith Government, under which the right of issue was extended by seventy- ve additional lakhs, on the bank agreeing to pay Government at the rate of per cent. per annum on the excess of their authorised circulation. So reat was the demand for accommodation at this period, that not less than per cent. per mensem was paid in the bazar for short-dated loans. Towards he end of March the business of the Bank reverted to its ordinary channels, nd successive falls in the rates of interest took place during the following month. Indeed so rapid was the reaction, that in April, May and June the amount of cash steadily increased from a minimum of Rs. 1,11,13,561, to upwards of Rs. 2,36,00,000. This repletion of coin in the coffers of the bank has been accompanied by an unusual dulness and stagnation in all the staple articles of trade. Money in consequence continues very abundant, and great difficulty is experienced in finding employment for it even at the bazar rates of 3¾ to 4 per cent. The Directors, however, hopefully look forward to an early mitigation of the unfavourable features which have characterised the position of mercantile affairs during the past three months.

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## Enclosure No. 7.

No. 1561, dated 25th September 1878.

From J. WESTLAND, Esq., Offg. Comptroller-General to the SECRETARY and TREASURER, Bank of Bengal.

"I have the honour to communicate to you, for the information of your Directors, copy of the orders of Government, No. 2430, dated 22nd August 1878, directing the reduction of the balance on the Bank of Bengal by transfer to the Reserve Treasury of any excess over about a crore of rupees. With reference to the last paragraph of the Government letter, I have received instructions that advances from the Reserve Treasury are at present intended to be made only to or through the Presidency Banks, from which no security for them will be taken.

2. With reference to the loan for which tenders were invited upon 12th August last, I have received the following telegram from the Government of India, which so far modifies the orders now communicated :—

"The Government of India will not withdraw loan proceeds from the Bank of Bengal this time."

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No. 2430, dated 22nd August 1878.

From R. B. CHAPMAN, Esq., Secretary to the Government of India, Finance and Commerce Department, to the COMPTROLLER-GENERAL.

By my letter No. 3566, dated 2nd September 1875, the Government of India communicated to the Bank of Bengal a memorandum dated the 13th

September 1875, of the conditions upon which the Governor General Council was prepared to make an agreement with the bank for the transacti of the public business. The same document was simultaneously commu cated to the Banks of Madras and Bombay.

Among the conditions contained in that memorandum was the following

> "it is to be understood that the Government will ordinarily leave with the head-quarters of the banks, otherwise than tempora more than the following sums:—

| | Rs. |
|---|---|
| Bank of Bengal - - - | 1,00,00,000 |
| Bank of Madras - - - | 30,00,000 |
| Bank of Bombay - - - | 50,00,000 |

but this condition will not be inserted in the contracts, which will impose n obligation upon the Government to leave any balance whatever with th banks."

"It will be observed that the Government will not undertake to give t the banks the exclusive custody of all the public balances where the Govern ment banks with the banks."

The Presidency Banks Act came into force on the 1st May 1876, a agreements were shortly afterwards concluded in accordance with th memorandum.

The conditions thus recited were connected with the following instruc tions contained in a despatch from the Secretary of State, No. 225, date 6th May 1875, paragraph 15: "Your proposal that a minimum balance " should be fixed, all deductions from which should carry interest against " you, appears to me to be reasonable. Without such a protection, express " or implied, it would be difficult for the banks to transact business with so " large a customer. You would naturally take care to fix a minimum which " should not impose any burden upon the State, beyond what is necessary " for their fair remuneration. Any such arrangement should be supple- " mented by a corresponding provision that if the balances which you think " fit to leave with the banks exceed a fixed maximum and the banks should " desire to retain them, they should bear interest in your favour."

For some weeks past the public balances at the Bank of Bengal in Calcutta have largely exceeded one crore of rupees; at one time they reached the large sum of Rs. 2,68,76,683. The public balances at the Bank of Madras at Madras, have also considerably exceeded the ordinary maximum of 30 lakhs of rupees. The abnormal excess in Calcutta is due to the loan of 2½ crores of rupees (exactly Rs. 2,46,07,056) which was taken up on the 24th June, and it is understood that Mr. Waterfield hesitated to transfer any part of the proceeds of the loan to the Reserve Treasury, because money has not hitherto been thus transferred directly from the bank to the reserve.

The Governor General in Council is, however, unwilling that the condition which has been quoted from the memorandum of the 13th September 1875, should be allowed to become a dead letter, and I am accordingly to request that in future it may be borne in mind, and that the balances at the Head office of each of the three banks may not be allowed, for more than a short time, to exceed the maximum amount fixed in the memorandum. You should have no difficulty in arranging thus, especially in Calcutta where the Reserve Treasury is at hand; and, unless you have reason to think that the present balance in the Bank of Bengal there will speedily subside, a portion of it should be at once transferred to the Reserve Treasury.

It will be convenient that it should be understood that in future, when a loan is raised, no more of the amount subscribed should remain with the banks than will raise the public balances, at most, to the maximum.

In carrying out these instructions, however, you will be at liberty, to the extent to which you can conveniently do so, to accommodate the banks with temporary advances from the Reserve Treasury, provided they are willing to pay interest on such advances at current rates.

ENCLOSURE No. 8.

His Excellency the Viceroy and Governor General of India in Council.

The Memorial of the Presidency Banks of Bengal, Madras and Bombay.

WETH—

1. That your memorialists, the Presidency Banks, have recently had to ider what, if any, powers of borrowing money are vested in them by the idency Banks Act (XI of 1876) having reference to the provisions of ions 36 and 37 of such Act.

2. That your memorialists, the Bank of Bengal, have recently taken the inion of learned Counsel on the following points :—

1st.—Whether the bank is in any way prohibited by the Bank Act from raising money by borrowing in England at the Bank of England or elsewhere, on the security of the deposit of Indian Government Securities belonging to the bank.

2nd.—Whether in case money is raised as in the last question suggested, the Bank of Bengal is prohibited by the Bank Act from remitting by bills or otherwise the amount of such loans at due date thereof.

3rd.—As to the legality or otherwise of the bank's raising money at all, and borrowing either on deposit of securities or otherwise.

4th.—As to the validity of the bank's lien on property pledged to it by either of the other Presidency Banks.

And the following is a copy of Counsels' opinion on the points submitted them :—

OPINION.

Under Act XI. of 1876 the bank is, by Section 4, incorporated and ossesses and enjoys all the "rights and powers incident by law to a Corporation aggregate subject nevertheless to the provisions of the Act."

The general law as to the position of a Corporation thus constituted has been recently considered by the Court of Exchequer Chamber and the House of Lords in the *Ashbury Carriage Co. vs. Ritchie*, L. R., 9 Ex., 224–249, and L. R., 7 E. and T. App., 653.

The short result seems to be that though a Corporation by the Act of its creation is endowed *primâ facie* with all the powers of a natural person *sui juris*, yet (as Lord Cairns says) if the Act "states affirmatively the ambit and 'extent of vitality and power which by law are given to the Corporation, 'and states negatively that nothing shall be done beyond that ambit, no 'attempt can be made to use the corporate life for any other purpose than 'that which is so specified."

In this case the "affirmative" is specified with great particularity and minuteness in Section 36, the "negative" broadly and generally in Section 37.

We are of opinion that going into the English or other European markets as borrowers to raise money at rates lower than Indian rates, is a species of business beyond the scope of the bank's powers, and that in so doing, the Directors would run (to say the least) a very great risk of being held to have endeavoured to go beyond "the ambit of the bank's corporate vitality."

It is clear that they cannot as *principals* draw bills on England.

The other questions involve greater difficulty.

Section 36 gives power to advance money (*a*), power to invest and *convert* the investments *into money* (*d*), power to receive deposits and keep cash accounts on such terms as may be agreed on (*g*) and generally, the doing of all such matters and things as may be incidental or subsidiary to the transacting of the various kinds of business above specified (*n*).

Looking at the general nature of banking business and the sudden demands liable to be made on a bank, we cannot say that it may not sometimes be incidental and subsidiary to the business of a Corporation engaged in lending money and having a large reserve of Government Paper, occasionally to take a loan on its Government Paper pending its total conversion into money.

If it were shown to be a case in which, from a temporary fall in the market, a prudent man would naturally take this course, it would be difficult to hold that such acts were not incidental and subsidiary to the business specified in Section 36.

But at the same time it must be observed that the powers are given with great particularity, and that there is not a word about pledging or giving security in Section 36, and no power of borrowing, save by way of "taking deposits" under clause *g*; and although receiving deposits is in the eye of the law "borrowing," still it is a peculiar kind of borrowing, and any attempt to extend it beyond its ordinary and accepted meaning might be looked upon as an *evasion* of the Act.

On the whole we are of opinion that it is not necessarily "*ultra vires*" for the bank to raise money on Government Paper, as an intermediate step in its total conversion into money, when the exigencies of business demand it. The more so, because in some cases powers of sale have been held to include power to mortgage.

But we are very decidedly of opinion that if the bank contemplates doing this on a large scale and habitually, it would be very desirable to have an express authorising clause inserted in the Act, and not to leave a question of such importance to be decided by inferences which might be drawn differently by different judges.

These remarks show the view we take of the paper held in pledge from the other banks. We think they would be held to be good pledges, but think it would be more satisfactory if their authority to pledge were distinct.

(Signed) G. C. PAUL.
11th September 1877. ,, G. H. P. EVAN.

3. That your memorialists submit it is an ordinary incident of banking business to obtain funds for temporary purposes by pledging assets. If banks are prohibited from raising money by pledge of assets when occasion arises, they may on a sudden requisition for cash be obliged to make forced sales of property at a disadvantage, and this applies, your memorialists submit, with great force to the Presidency Banks of India, whose action in forcing Government or other securities on the market might cause a public panic.

4. Your memorialists submit that it is from every point of view desirable that the Presidency Banks should have power to borrow money on pledge of property or otherwise, and as money can often be obtained on more favourable terms in England than in India, your memorialists submit that the power of the Presidency Banks should extend to borrowing in England, and should include the power to make remittances to England in repayment of loans, and in payment of the price of stock or other authorised investments of the banks from time to time which may be purchased or acquired in England.

5. Your memorialists submit, moreover, that it is highly desirable that the powers of the Presidency Banks should be clearly defined, and should not be left as learned Counsel say "to be decided by inferences which may be drawn differently by different judges."

6. Your memorialists believe that it is the practice of the Bank of England to raise money at times on pledge of Consols, and to lend money on securities of the Government of India, which are known in London as "Rupee paper," and—

Your memorialists therefore humbly pray that the Presidency Banks Act (XI. of 1876) may be amended, and that distinct and definite powers may, by the amended enactment, be given to such banks.

1st.—To borrow money either in India or England, by pledge of assets or otherwise, and on such terms as to repayment, interest, &c., as the said banks may from time to time arrange.

2nd.—To make remittances by Bills of Exchange or otherwise as may seem expedient, to England, in payment of the price of stock or other authorised investments from time to time purchased or acquired for the banks in England, and also in repayment of loans arranged for there.

And your memorialists further pray that previous borrowings by such banks or either of them may be declared to have been valid transactions.

And your memorialists as in duty bound shall ever pray.

No. 2516, dated 31st August 1878.

RESOLUTION.—By the Government of India, Finance and Commerce Department.

READ.—The undermentioned papers relating to a Memorial addressed to the Government of India, by the three Presidency Banks, praying that the Presidency Banks Act, XI. of 1876, may be amended, so that the banks may be empowered—

1st.—To borrow money, either in India or England, by pledge of assets or otherwise, on such terms as to repayment, interest, &c., as the said banks may, from time to time, arrange:

2nd.—To make remittances to England from time to time, by bills of exchange or otherwise, as may seem expedient, in payment of the price of stock, or other authorised investments, purchased or acquired for the banks in England, and also in repayment of loans arranged for there:

and that previous borrowings by such banks, or any of them, may be declared to have been valid transactions:—

Letter from the Secretary and Treasurer, Bank of Bengal, dated 22nd December 1877, and its enclosure, being the Memorial from the Presidency Banks.

Endorsement to the Comptroller General, No. 2828, dated 22nd December 1877.

Letter from the Comptroller General, No. 5849, dated 27th December 1877.

*Despatch to the Secretary of State, No. 41, dated 25th January 1878.

*Despatch from the Secretary of State, No. 135, dated 2nd May 1878, and its enclosure.

Letter to the Government Solicitor, No. 1505, dated 6th July 1878.

Letter from the Government Solicitor, No. 684, dated 18th July 1878, and enclosure.

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RESOLUTION.—The Secretary of State for India is unwilling that the Governor General in Council should comply with the Memorial, so far as it relates to borrowing in England; because, so long as the Government Balances are in the custody of the Presidency Banks, it is not considered expedient that the banks should engage in foreign exchanges, or have the power of creating a foreign Agency in England, which would be the result of their contemplated loan transactions in that country.

2. The Secretary of State is prepared, however, to concede to the Presidency Banks the desired power of borrowing money *in India*.

3. But, before taking any steps in this direction, His Excellency in Council desires to be informed whether the experience of the past two years has revealed any other defects in the Presidency Banks Act, XI. of 1876. It has been represented to the Government of India as a defect, that, under Section 36 (*a*), the Presidency Banks are debarred from buying and advancing money on securities guaranteed by a Local Government, or on securities issued by a Municipality, or by a Port Trust constituted by Law.

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ORDERED.—That this Resolution be communicated to the Comptroller General and the Accountants General, Madras and Bombay, and the Presidency Banks,† with a request for an early report whether any other amendments of the Presidency Banks Act are desired.

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Dated, Madras, 6th December 1899.

From H. SCOTT, Esq., Vice-Chairman, Chamber of Commerce, Madras, to the SECRETARY to the GOVERNMENT of INDIA, Finance and Commerce Department.

I have the honour to acknowledge the receipt of your letter No. 5122 [illegible] ultimo, in which the Government of India invites the opi[illegible] proposal to [illegible] the restrictions [illegible]

Presidency Banks Act, 1876, and asks for suggestions as to the precise directions in which any relaxation should be made. The Chamber is further asked to consider the matter with special reference to the existing capital of the banks.

Prior to the receipt of your letter the Chamber received from the Secretary and Treasurer, Bank of Madras, a copy of his letter to you of the 13th ultimo (copy enclosed) in which, on behalf of the Directors of the bank, he submitted, for the consideration of the Government of India, suggestions for modifying the Presidency Banks Act. This letter has received the careful consideration of the Chamber, which is unanimously of opinion that the removal of the restrictions mentioned therein is urgently called for.

Whilst fully agreeing with all the suggestions put forward in the bank's letter, the Chamber is specially impressed with the urgent need for legislation which will enable the Presidency Banks to expend their supply of loanable funds in times of pressure. The Chamber is convinced, so far as the Bank of Madras is concerned, that the capital of the bank is ample for present requirements. Indeed, it may be questioned whether a dividend could be earned, under existing conditions, on further capital, which would probably only be employed for a few months at the height of the busy season, while for the remainder of the year it would be idle in the bank's vaults.

It is the want of elasticity in regard to loanable funds, available for trade purposes, which causes periodical stringency at the height of the busy season. The remedy for this, in the opinion of the Chamber, is to amend the Presidency Banks Act so that the banks may be brought into touch with the London money market. If Government considers that the restrictions imposed by the Act in regard to borrowing out of India should not be removed, the Chamber submits that there is an obligation on the part of Government to devise some other means whereby the Presidency Banks may have the facility, which all other banks possess, of expanding their resources to meet unusual trade demands. The only alternative which the Chamber can see is that Government should lend to the banks, whenever they required funds, on definite and reasonable terms. It is absolutely necessary, however, that any arrangement of this kind should be *definite*, so that the banks could obtain funds when necessary at a moment's notice, as they could do were they permitted to raise the money themselves. The Chamber is further of opinion that, if Government decides on this course, the rate of interest charged should approximate that at which money could be borrowed by the banks in the London market.

While putting forward this alternative suggestion for the consideration of Government, the Chamber is strongly of opinion that the best solution of the difficulty is to permit the banks to borrow in London, in which case assistance from Government would not be required. If, as is assumed, the currency scheme is to be made effective with the rupee at 1*s.* 4*d.*, the Chamber can see no objection to the latter proposal, and has no hesitation in strongly supporting it.

In conclusion, the Chamber would observe that all the Presidency Banks have the power of adding largely to their present capital under the existing Act, and the Bank of Madras recently took advantage of this power to increase its capital by a small amount. It may, the Chamber thinks, be safely assumed that the banks will further avail themselves of this power as soon as they can see their way to profitably employ any further capital.

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No. 1507—99, dated 20th December 1899.

From W. PARSONS, Esq., Secretary, Bengal Chamber of Commerce, to the SECRETARY to the GOVERNMENT of INDIA, Finance and Commerce Department.

I am directed by the Committee of the Bengal Chamber of Commer[illegible] ledge receipt of your letter No. 5123-A., with its enclos[illegible] reference to [illegible]tion of [illegible]

opinion of the Chamber on the proposal, with suggestions as to the precise directions in which any relaxations should be made, the matter to be considered with special reference to the existing capital of the banks.

2. The Chamber are asked to give their opinion—

(*a*) As to whether it is desirable that the Presidency Banks Act should be amended so as to permit of the Presidency Banks making advances on the stocks of Assisted Railways, &c., &c.

(*b*) As to whether the existing capital of the Presidency Banks is sufficient to admit of the banks being given extended powers to enable them to make advances on the securities named.

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4. The Committee find some difficulty in giving a definite reply with regard to the second point put before them. It seems to them that the question raised should be considered rather with special reference to the general resources of the Presidency Banks and to the entire banking system of India, than to the existing capital of the Presidency Banks. It is held in some quarters that the scarcity of loanable capital and high rates of interest and discount frequently experienced in the busy season are due to the fact that Government collect a very large portion of the revenue after the harvests, and thus withdraw from active circulation a large sum in coin at the very season of the year when money is required to pay for and move the crops, and that these recurring periods of extreme stringency might be mitigated, were Government to take precautions to prevent their revenue collections from unduly affecting the money market.

5. The Chamber have more than once advocated a more liberal policy towards trade in connection with the treatment of the Government balances. While the Committee agree that this is desirable, they recognise that in a country like India, where either for war or famine purposes, or owing to some other unforeseen and altogether unexpected cause the Government are compelled to keep a portion of their resources locked up and available at a moment's notice, while it is also necessary to keep in funds hundreds of treasuries scattered over the empire, it is not altogether prudent for the Central Banking Institutions to rely wholly on assistance from the Government treasuries at a time of extreme stringency, and the Committee will welcome any arrangements that can be made for affording these institutions other means of expanding their resources readily at times of pressure.

6. It has been pointed out that for several months in the year it is impossible to lend out money in India except at a nominal rate of interest, and that it is consequently difficult for banks to work at a profit. This consideration makes it the more difficult for the Committee to answer the question put to them in regard to the adequacy, or otherwise, of the capital of the Presidency Banks. But they are convinced that in the busy season the banking facilities in India are not sufficient for the trade and the satisfactory development of the country, and at times of pressure the existing arrangements for giving relief seem to them to be quite inadequate.

7. As a measure of relief in this connection, suggestions have been made—

(*a*) that in the Paper Currency Reserves the Government have an excellent machinery, with which at times of pressure and without in any way crippling their own resources they can, under some suitable arrangement with the Presidency Banks, come to the relief of commerce;

(*b*) that if a large bank is formed by the combination of the Presidency Banks, its resources and capabilities for useful work would be greatly increased if it had the power of issuing legal tender notes. The Committee are inclined to think that the existing system under which the country is divided into circles, and the [illegible] issued at the Head Office of any one circle are legal tender [illegible] elsewhere [illegible] open to the [illegible]

England and the banks of other European countries, with the management of the Paper Currency, subject, of course, to all the regulations considered essential for the protection of the public, the note issue would expand to the great convenience of commerce.

8. These suggestions, however, and the others referred to in this letter, upon which, owing to the very complex nature of the subject, the Committee do not attempt to do more than touch, raise questions which they would like to see expertly and very fully discussed; and they would suggest that at an early date, a conference be held of bankers and others interested, at which the views of all parties would be invited, so that the subject may be thoroughly threshed out. The Committee would add that, in their opinion, the banking system in India will never be entirely satisfactory until the Central Banking Institutions are in close touch with London, the money market of the world.

9. In conclusion, the Committee would acknowledge the indebtedness of the mercantile community to His Excellency the Viceroy and the Honourable Mr. Dawkins, for the efforts they are making to improve banking facilities in India. They trust that these efforts will result in the Central Banking Institutions and the other banks in India being placed in a position to give important assistance to the promotion of railways and other works of public importance, and to finance at moderate rates and on terms as free as possible from heavy fluctuations, the operations of industrial and other trading concerns, thus placing the country in a more advantageous position in the future than in the past to compete with the great commercial nations of the world.

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Dated 20th December 1899.

From the SECRETARY, Chamber of Commerce, Bombay, to the SECRETARY to the GOVERNMENT of INDIA, Finance and Commerce Department.

Under the instructions of the Committee of the Bombay Chamber of Commerce I have the honour to acknowledge the receipt of your letter No. 5123–A., dated 10th November 1899, with copy of the speeches made by His Excellency the Viceroy and the Honourable Mr. Dawkins on the 1st September last on the subject of amending the Presidency Banks Act of 1876.

2. These speeches have had the best consideration of my Committee, and I am now directed to reply that the members approve of the proposal to relax the restrictions imposed upon the Presidency Banks by the Act, and would further recommend that these banks be permitted to borrow out of India. There is, in the opinion of the Committee, no reason to suppose that such relaxation and permission if conceded to the Presidency Banks as at present constituted would lead to rash borrowing or investment or to the tying up of capital for any excessive length of time. Nor has the Committee any doubt that the banks in question are fully capable of providing more working capital when required. Attention has been particularly drawn to the amount of Government deposits with the Presidency Banks and the proportion borne by such deposits to the bank's resources has been by implication very greatly exaggerated. The comparison instituted by the Honourable Mr. Dawkins, between Government Account and the Bank's cash balances is calculated to mislead the public; for the Bank's Cash balances which it is, of course, the endeavour of the management to keep as low as possible, do not in any way represent the banks' available resources. In point of fact the ratio of Government Account to the banks' available resources is understood not to exceed 15 per cent., and the sum is generally least when trade demands are greatest. In the opinion of the Committee too much has perhaps been made of the recent periods of tightness as being due to a want of sufficient capit in the country, notably in the hands of the Presidency Banks. Stringenc in the money market have been not infrequently due to want of confid exchange, precariousness of credit and consequent withdrawal of r l from circulation in the bazaar, and, as this Chamber has alread resenting, to the practice of locking up enorm

Banks as to a Central Bank for all India to be formed by amalgamation of the Presidency Banks. The Committee have had the advantage of hearing Mr. O'Conor, Director-General of Statistics, on the subject, but it appears to them that the proposals as to the precise constitution and functions of the said Central Bank are too indefinite for thorough consideration.

4. Such points as—

(*a*) the amount of capital,
(*b*) the conditions of note circulation,
(*c*) the cost of managing it,
(*d*) the possibility of dispensing with the system of note circles, and
(*e*) the practical convertibility of the rupee, with its attendant problem of the control of the gold reserve, are all questions of great importance; and the Committee feel themselves in want of the necessary detail to appreciate their effect.

5. The most important of these points is that of the amount of capital to be controlled by the bank. The Committee understand that it is not to have more Government support than the present Presidency Banks, and, therefore, similar conditions of management must be followed and the capital must be kept down to what can be profitably employed. At the same time the bank is to have large currency duties to perform, *i.e.*,—

(*a*) to establish the 1*s.* 4*d.* exchange, or in other words the gold standard,
(*b*) to maintain a steady and a lower rate of discount throughout the country, and
(*c*) to undertake convertibility.

To maintain any effective control on these three unknown quantities under probable and improbable circumstances would call for the holding of large and idle reserves; it, therefore, appears that there are two opposite factors to be considered with this question of capital, and without knowing the views of Government this essential point cannot be dealt with. The mere addition of three or four million pounds to the available banking funds could have but little effect on the development of a vast country like the Indian Empire, and any really large increase of capital under one control would be difficult of profitable employment, competing, as it would have to do, with the internal native banking concerns and the powerful banks of the capital towns.

6. The Committee are not satisfied that mere amalgamation of the banks would be likely to confer benefit in any general sense; on the contrary they look upon India and Burmah as too vast an area to be effectively served by one Central Bank. Whatever rules might be laid down for the autonomy of the various Presidency Offices and for the universal character of the general management, one or other of the Presidency Towns would inevitably and immediately become the real seat of such general management and reap the advantages of such domicile to the detriment of the other two. The Committee, therefore, consider that the interests of commerce will be better served by development of the separate fields than by their consolidation; for in the opinion of the members the fusion of the Presidency Banks—so far from increasing credits as is assumed—would have the opposite effect and restrict them.

7. A good deal has been said about the advantages the new bank would secure in the way of an even flow of capital throughout the country; but the Committee do not at present see how the conditions necessitating the so-called water-tight Treasury Compartments are to be altered so as to afford the public greater convenience without a corresponding strain on the bank. And they remain of opinion that no method has yet been indicated that would be likely in practice to cause a quicker and more effective distribution of money than that which is at present governed by the imperative calls of trade.

8. It has been stated that with India's currency difficulties settled a considerable expansion of financial and industrial enterprise would follow. Not gainsaying that the inflow of British capital consequent upon a rupee might be considerable, the Committee would point out [illegible] and enormous growth of the [illegible]

9. Coming to the note issue, it is not clear to the Committee that any substantial and immediate benefit would accrue to the bank from the proposed concession that it should only derive benefit on the increased issue of notes it could succeed in placing in circulation. Such an increase could only be looked for to take place gradually; and although the general interchangeability of the notes as compared with the present limited note circles should make the paper more popular, still it is a fact of to-day that in the interior coin and not notes is the medium of exchange.

10. On the question of convertibility the Committee incline to think that, although the undertaking is by no means absolute, it might, if liberally acted upon, serve to encourage the free inflow of sterling capital; they, however, doubt whether France, with its enormous gold reserve and without external debt, should be compared with a country so differently situated in these two respects as the India of the present day.

11. On the whole the Committee consider that the interest of the trading community would be best served by improving the means at hand and allowing further time to help towards the solution of a problem (the currency legislation) which has no exact counterpart in other parts of the world.

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No. 25, dated 21st December 1899.

From J. BEGBIE, Esq., Secretary and Treasurer, Bank of Bombay,
to the SECRETARY to the GOVERNMENT of BOMBAY,
Financial Department.

I have the honour to acknowledge receipt of your letter No. 5599, dated 23rd ultimo, asking that the Government of Bombay may be favoured with the views of the Board of Directors of the Bank on the proposals referred to by the Government of India in their letter No. 5123-A., dated 10th idem, regarding the relaxation of the restrictions imposed by Sections 36 and 37 of the Presidency Banks Act, 1876, on the business of the Presidency Banks.

The letter from the Government of India was addressed to the Chambers of Commerce in Bombay and elsewhere, and forwarded a copy of the speeches made by his Excellency the Viceroy and the Honourable Mr. Dawkins at a meeting of the Legislative Council of the Governor-General held on the 1st September last, explaining the circumstances under which the question of amending the Presidency Banks Act, 1876, had been raised, and the attitude which the Government of India are at present inclined to adopt. The letter asked for the opinions of the Chambers on the proposal to relax the restrictions imposed by the Act, and for suggestions as to the precise directions in which any relaxation should be made, and also that the matter should be considered with special reference to the existing capital of the banks.

In reply, my Directors instruct me to say that they welcome the conclusion arrived at by the Government of India that the limitations imposed by the Legislature on the business in which the Presidency Banks are authorised to deal have to some extent survived the times and conditions which rendered them necessary, and do unnecessarily hamper business and enterprise; and also the declaration that Government is prepared and has decided to examine the question exhaustively and in no narrow spirit.

* * * * * * * *

I am instructed to say, however, that still another amendment is necessary, namely, that the power the banks now possess of borrowing money in India for the purpose of the banks' business, and giving security for money so borrowed by pledging assets or otherwise, should be extended to enable them to borrow in England. With the sterling

the Banks that access to the London money market which His Excellency the Viceroy deemed necessary if an amalgamation of the Presidency Banks was affected, and is most necessary in the interests of the trade. Such risk as there is of loss by exchange can, if desired, be definitely ascertained and provided for at the initial stage of the transactions, by fixing the rate of exchange for the return remittances at the time the money is brought out to this country. This can almost invariably be done if the return remittance is to be made within a few months.

The additional borrowing powers now sought have been found by experience in recent years to be necessary to meet special times of pressure for money arising from active trade demands or from other causes. They are not sought merely to meet the further demand for accommodation which may arise by reason of the securities of assisted Railways and District Boards being included amongst the securities the banks may invest in or lend again[illegible] But I am instructed to draw attention to the expectation of a consid[illegible]able expansion of financial and industrial enterprise in India, which is wide[illegible] entertained, and was alluded to in the speech of His Excellency the Viceroy[illegible] and to say that if such an expansion takes place, the Presidency Banks should be in a position to obtain money on the cheapest terms possible, either in India or in England, to meet the additional demand for accommodation which will accompany the increase in trade.

The three Presidency Banks are unanimous in seeking for power to borrow out of India.

### Government doubts as to Sufficiency of Banks' Capital.

The letter from the Government of India seems to indicate that the Government entertain doubts as to the sufficiency of the existing capital of the banks. My Directors are strongly of opinion that the working capital of this bank can be largely increased by deposits or borrowing before it will be necessary to have recourse to an increase of the shareholders' capital, although they will not hesitate to recommend an increase of the latter if circumstances should seem to them to require it in the future.

### Government reasons for thinking Capital insufficient.

The reasons given in the following passages from the speeches of His Excellency the Viceroy and the Honourable Mr. Dawkins for the Government, doubts as to the sufficiency of the banks' capital appear to my Directors to have been advanced under a misapprehension of the actual facts.

> "The Presidency Banks depend to a quite exceptional degree for their cash balances on the Government account. As Sir James Westland showed, in the busy season, nearly 80 to 90 per cent. of these balances are supplied from the Government Account—a fact which, added to the fluctuation in the rate of discount, may make us ask seriously how far the Presidency Banks have sufficient capital to allow of the absorption of the resources they command in enterprises, the securities of which might not be easily realisable.
>
> "The bulk of their (the Presidency Banks) cash balances, or what I suppose I may call their loanable capital, is supplied by Government, and * * if we subtract this at any given moment, they are not, as a rule, in possession of sufficient independent capital to enable them to conduct operations on a large scale."

My Directors respectfully submit that the correct way to measure the extent to which the banks depend on the Government Account is to compare the amount of the Government deposits with the total working capital of the [illegible]anks, consisting of the shareholders' capital and the Government and other [illegible]posits, and not with the amount of the cash balance on hand. Measured [illegible]his way, it will be found that the Government deposits form only a small [illegible]ortion of the total working or loanable capital.

[illegible]e whole of the Government balances deposited with this Bank ar[illegible] [illegible]sh, as seems to be supposed. They form a part of the [illegible] [illegible]e on demand, and it has nev[illegible]

not mainly of the Government balances. My Directors therefore think that the statement quoted from Sir James Westland that in the busy season nearly 80 to 90 per cent. of the banks' cash balances are supplied from the Government Account, cannot be accepted as correct, and does not show that the bank depends to an exceptional degree on the Government Accounts, or that its capital is not sufficient.

I have further to point out that the reference made in the first of the two passages above quoted, to the fluctuations in the rate of discount, and the inference also drawn therefrom that the banks' capital is insufficient, also appears to my Directors to have been made under a misapprehension. There are other elements besides the capital of the banks which should be taken into account to ascertain the cause of the fluctuations in the rate of discount. There are the supplies of money to be considered on the one hand, and the demand for finance accommodation on the other. The supplies may be divided into three parts—the working capital employed by all the banks in India, the Government balances, and the native capital employed solely in the different bazaars throughout the country. Of these, only the first, consisting of the capital, deposits, &c., of the banks, is a fairly constant quantity. The Government revenue collections in the early part of each year lead to the withdrawal of large sums from the active circulation at a time when money is greatly needed by the trading community. And the usual Government disbursements are subject to great changes. In normal times large sums are distributed throughout the year in the Presidency towns in payment of Council Bills, &c., while in a time of famine or war such disbursements are liable to be largely reduced or even entirely stopped, the money being diverted elsewhere. The native capital employed in the bazaars is also liable to severe contraction, especially in a time of famine, or plague, or war, when much of it is withdrawn entirely from employment. That is the time when an exceptional demand for accommodation is experienced by the banks. The prices of many commodities rise, and more banking facilities are required than in ordinary times. The supplies of money in India are thus liable to large fluctuations, while the demand for accommodation varies greatly and is very heavy when the supplies are diminished, leading to a sharp rise in discount rates. The movements in the banks' rate of discount being contributed to by causes and conditions over which the banks have no control, the capital of the banks can hardly, my Directors think, be said to be deficient merely because of the fluctuations alluded to.

### Proposed Amalgamation of the Presidency Banks.

My Directors regret that they are unable to concur in the opinion expressed by His Excellency the Viceroy that a consolidation and a concentration of banking facilities are required in the interests of the business accommodation and credit of the country. So far as they are aware, there is no demand in India on the part of the mercantile and trading community for such concentration. If the banking facilities in the country were found to be inadequate, an increase in banking capital would be necessary, and would speedily be called for, but a mere amalgamation of the existing banks would not provide an increase of capital or of banking facilities. It would rather tend to curtail credit in many cases.

One of the objects the Government have in view in proposing the amalgamation of the three Presidency Banks is, my Directors are informed, to obtain an institution to which could be entrusted the duties of maintaining exchange with England within certain limits, and of managing the currency note issue, and certain high financial authorities in England have expressed their opinion in favour of these duties being entrusted to a bank. My Directors will be glad to consider fully and favourably any proposals which Government may make to them with this end in view. Such proposals will no doubt, take into consideration the great risk which would devolve on a bank which undertook the maintenance of the exchange between India and England under present conditions, and will also include the offer of such a guarantee.

Dated 27th December 1899.

From W. B. WISHART, Esq., Secretary, Upper India Chamber of Commerce, to the ASSISTANT SECRETARY to the GOVERNMENT of INDIA, Finance and Commerce Department.

PRESIDENCY BANKS ACT, 1876.

Your letter No. 5123-A., dated 10th ultimo, has been duly considered by the Committee of this Chamber. I am now directed to say that my Committee beg to thank the Government of India for the opportunity granted the Chamber to express an opinion *re* the proposal to relax the restrictions imposed, under Sections 36 and 37 of the Presidency Banks Act, 1876, on the business of these banks; as also to put forward suggestions as to the precise direction in which any relaxation should be made.

The members of this Chamber are chiefly representatives of Compan engaged in manufacturing and industrial enterprise of firms dealing country produce for shipment, and in the handling of imported goods. Th are, therefore, from personal experience, in a position to appreciate fully th soundness of the sentiments expressed by the Governor General of India at the Meeting of Council held on the 1st September 1899, and in particular, the remarks made by His Excellency, *viz.*:—

* * * * * * * *

"An examination of the existing system leads me to doubt whether the banking institutions of India are at all adequate to the growing needs of the country."

* * * * * * * *

"Here we are at the end of the nineteenth century, with 22,500 miles of railway opened in this country; with the telegraph wires connecting all our important cities and centres; with business operations being conducted every year on a larger and increasing scale. Moreover, we are looking forward, if we can settle our currency difficulties, to a considerable expansion of financial and industrial enterprise. And yet, in respect of banking, it seems to me that we are behind the times. We are like some old-fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbrous compartments. This is a state of affairs which it appears to me can hardly continue."

* * * * * * * *

The inability of the Presidency Banks to advance against immovable property, as collateral security, in connection with loans made on the security of stocks of raw and manufactured goods, has in the past hampered and retarded the progress of many assured undertakings in these Provinces, they having, in consequence, been forced on occasion to obtain money from uncertain or outside sources at high rates of interest, often coupled with terms preventing such concerns from borrowing money against movable property in the open market or from the Presidency Banks.

The Chamber does not recommend that sanction be granted to the Presidency Banks to make advances on immovable property generally, but hold that, subject to certain limits, some relaxation of the restrictions imposed by the Act should be allowed where industrial and manufacturing enterprises are concerned.

The amendment to the Act whereby the Bank of Bombay is enabled to deal in securities of the Bombay Improvement Trust Fund is not a matter which this Chamber is disposed to cavil at, and the application of the Bank of Bengal for the extension of its Charter so as to cover transactions in the securities of Assisted Railways is reasonable from the Bank's point of view such securities give a better net rate of interest and are subject to less fluctuation than is Government Paper as a rule. But having regard to the fact that the Presidency Banks have the custody of Government balances, my Committee consider that the mercantile community are entitled to look to the banks to invest the bulk of the funds at their disposal primarily in the commerce of the country.

whether brought about by the action of Government or of the Presidency Banks, was treated of in a letter addressed by this Chamber, under date 10th April 1890, to the Bengal Chamber, a copy of which is enclosed for favour of consideration.

The subsequent decision of Government to make treasury balances available for mercantile purposes during the so-called busy season demonstrates the desire to assist trade, but the restrictions imposed, tending to limit such assistance to only a few months of the year, and the depletion of Government funds in the hands of the Presidency Banks has, combined with other factors, nullified to a great extent the good intentions of Government in the matter.

The working of the Presidency Banks during the last four years and the large sums that they have been able to add to their "RESERVE" proves that funds have been fully employed and kept liquid to an extent that might well excite the envy of like Chartered Institutions in many other British dependencies. But my Committee cannot accept, as applicable to existing circumstances, the statement made by Sir James Westland to the effect that in the busy season 80 to 90 per cent. of the Presidency Banks' cash balances are supplied from the Government Account. At this season of the year, when all possible assistance to trade in general is needed, it is disconcerting to see how low the Government balances are.

The statement of the affairs of the Bank of Bengal for the week ending 14th November 1899 *vide Government of India Gazette*, dated 18th November 1899, shows the Cash Balance to be Rs. 2,50,00,000 against Government Deposits Rs. 1,22,00,000, General Deposits Rs. 5,80,00,000.

From the above figures it would seem that the Bank of Bengal could, without serious danger to itself, hand over the whole of the Government deposits; and incidentally the present state of affairs might be held to indicate that the bank cannot with safety trade with funds from such an uncertain source of supply. It is understood that Government has time and again been urged to allow the Presidency Banks to accept money in England for investment in their business in this country: and my Committee are of opinion that some relaxation of the provisions of the Act of 1876, or modification in the Charters of these banks, which would allow their drawing funds from home, is desirable, as calculated to render these institutions comparatively independent of Government balances and to place them in a position to finance the internal trade of the country, under normal conditions, all the year round, at a reasonable rate of interest.

My Committee, if it be considered permissible to diverge a little from the question directly under consideration, would venture to suggest that endeavours might, with advantage, be made to induce the Presidency Banks to follow trade more closely, by the establishment of Branches or Sub-Agencies at centres which have been, or will be, opened up by the Government Railway Policy. To quote a single instance, the huge districts in Oudh, embracing Nawabgunge, Bahraich, and Gonda, rich in produce of all sorts, but with little or no banking facilities, are points where branch banks might be established with little trouble and probably considerable profit. To purchase grain, oil, seeds, &c., in these and many other important trade centres in the United Provinces, it is necessary to resort to the primitive and dangerous practice of transporting as luggage, with owner, cumbersome rupees by rail from Cawnpore, Benares, Agra, Allahabad, or Lucknow.

As much as eight annas per cent. discount for cashing Government Currency Notes is not unusual in the districts, and during the first week of this month the Bank of Bengal, Cawnpore, has charged as much as four annas per cent. on Allahabad Circle Notes.

My Committee contend that Government Currency Notes should be legal tender at par throughout the circle of issue. The non-convertibility of such notes into cash or *vice versâ*, except at a discount during many months of the year, hampers business in the Mofussil greatly, particularly in the case of low-priced commodities where the item of discount on notes, or transfer, often absorbs the largest share of the working margin. This proposition is, of course, not intended to apply to the case of Circles other than

In conclusion, I am to state that my Committ[illegible] attempted to treat the question under discussion from the p[illegible] the interests represented by this Chamber in the United Provi[illegible] Punjab; unfortunately the desires of the Government of India, [illegible] mercantile interest of the various Presidency towns on occasion, p[illegible] in the matter of railway extension and finance, of necessity, clash w[illegible] of the community engaged solely in the internal trade of the country.

Dated 10th April 1890.

From the SECRETARY, Upper India Chamber of Commerce, to the SECRETA[illegible] Bengal Chamber of Commerce.

I am directed to thank you for your letter No. 235 of 21st ultim[illegible] forwarding copy of Budget Statement. My Committee do not consider th[illegible] there are any points in it involving the interests of the community whi[illegible] they represent that call for special comment, except in as far as the financi[illegible] transactions and policy of Government affect the supply and price of mone[illegible] in Upper India.

2. Some two years ago Government changed its custom as regards t[illegible] disposal of balances on hand, and has since held locked up at various poi[illegible] in the Mofussil, as reserves, the bulk of these funds. The district balance[illegible] are not, as was previously the case, at the disposal of the banks for short-dat[illegible] advances, and they consequently cannot now do business on the basis of the[illegible] actual cash in their vaults; further, it is understood that even when Governm[illegible] ment has no actual immediate need for money, large sums are frequently withdrawn and placed in the Reserve Treasury. Thus, a very considerable percentage of the bullion in the country has been rendered practically non-existent as far as trade is concerned, and the available currency reduced by the amount of these hoards.

3. The enclosed statement shows the highest point that the Bank of Bengal, Calcutta, minimum discount rate has reached in each month, November to April inclusive, for the past ten years. It will be seen that money has, since 1888, been at a very much higher level than was the normal state of affairs formerly, even including the time of the Russian war scare and other periods of political tension and disturbance. If in future during the produce season rates in the Mofussil are to continue to rule at from 12 to 15 per cent. for first-class bills, the export and import trade of these Provinces will be, to all intents and purposes, paralysed. From November to April large sums are required to bring the cotton, oil-seed, wheat and grain crops into the market; and if money is not available on reasonable terms, the bazaar dealers and petty traders of small means, through whom the bulk of the business of the country is carried on, will be utterly unable to work, and this is practically the case to a notable extent at the present moment.

4. When bankers and merchants of approved standing have to pay abnormally high rates for accommodation, it means that the less well-to-do class cannot get funds for trade purposes, except at an exorbitant cost. As high as 20 per cent. has been paid by dealers of fair commercial standing during the current year on short-term drafts! Be the reason what it may, in times of dear money Bombay and Calcutta appear always to be in the position to pay much higher rates of interest than up-country trade can stand, and therefore money is drained to these centres generally at the particular season of the year when it is most urgently needed in the Mofussil [illegible]r produce. At these times the banks show a not unnatural disposition to [illegible] as little business as they can at their branches, so as to have the bulk of [illegible]r funds available at the seaports above-named. It has been suggested [illegible]t might be feasible for Government to adopt some system that would [illegible]f the Presidency Banks making advances against Government Paper [illegible]e Reserve Treasury balances; and that this, while reducing [illegible]ess of the State to the public, would leave at the disposal [illegible] on account of raw produce and

wever, do not advance this as a remedy; they are in the discussion regarding the political or financial Government carrying heavy reserves of bullion, and not sh balances to be made available for trade purposes. They e to direct attention to the disastrous effect of the present system try business: that it is hurting both cultivators and dealers, and dified, agriculture, as well as the trade in the Mofussil, and consequently that of the seaports, will be seriously crippled.

TEMENT OF BANK OF BENGAL, CALCUTTA, MINIMUM DISCOUNT RATES.

| | 1879-80. | 1880-81. | 1881-82. | 1882-83 | 1883-84. | 1884-85. | 1885-86. | 1886-87. | 1887-88. | 1888-89. | 1889-90. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | % | % | % | % | % | % |
| ember | 6 & 5 | 3 | 6 | 4, 5 & 6 | 7 | 3 & 4 | 4 | 6 to 5 | 3 | 6 | 4 @ 5 |
| mbe | 5 & 4 | 3 | 6, 7 & 8 | 6 | 7 | 4 & 5 | 4 | 5 | 3 to 4 | 6 to 7 | 5 @ 6 |
| ary | 3 & 4 | 3 & 4 | 8 & 9 | 6 | 8 to 9 | 5 & 6 | 4 to 5 | 5 to 6 & 7. | 4 @ 5 to 6. | 8 @ 9 @ 10. | 6 to 8, 9 |
| ruary | 4, 5 & 6 | 4 & 5 | 9 | 5 | 9 | 6 & 7 | 5 to 6 | 7 to 8 | 6 to 7 | 10, 11, 12 | 9 to 10 11. |
| ch - | 6 & 7 | 5 & 6 | 9 to 10 | 6, 7 & 8 | 9 | 7 & 8 | 6 | 8 | 7 | 12 @ 11 | 11 |
| il - | 7 & 6 | 6 | 10 to 9 | 8, 7 & 8 | 9 @ 10 to 11. | 8 | 6 | 8 to 9 | 7 to 6 | 11 @ 10 @ 9. | 11 |

Dated 14th April 1890.

From the AGENT and CHIEF ENGINEER, Bengal and North-Western Railway Company, Limited, to the SECRETARY, Upper India Chamber of Commerce.

In corroboration of the statement made in your letter of the 10th instant to the Secretary, Bengal Chamber of Commerce, regarding the effect of dear money on the export trade of these Provinces, I would beg to inform you that in the districts served by this railway there has been an excellent crop of linseed during the past season; but, owing to the dearness of money, the merchants say they have not the means of financing the crop, and the trade is practically paralysed.

Extract from the Proceedings of the Council of the Governor General of India, assembled for the purpose of making Laws and Regulations under the provisions of the Indian Councils Acts, 1861 and 1892 (24 & 25 Vict., Cap. 67, and 55 & 56 Vict. Cap. 14).

The Council met at Government House, Calcutta, on Friday the 5th January, 1900.

* * * * * * *

QUESTION AND ANSWER.

The Honourable Mr. Allen Arthur asked:—

"In view of the great public importance of the questions discussed at the recent conference between the Finance Department, the Secretaries of the three Presidency Banks and representatives of certain Chambers of Commerce, viz., the possibility of relaxing certain restrictions placed on the business in which the Presidency Banks may engage, and the sufficiency or insufficiency of their capital for such an extension, of their operations, together with other questions consequent thereon, and in view of the close attention with which this discussion is being followed by the Banking and Mercantile communities throughout India, I desire to ask if any indication can be furnished of the results of the recent conference, and any intimation given of the policy which the Honourable the Financial Member is prepared to recommend to the Government of India in the matter.

"I would also enquire, if the proposed new bank is formed, what restrictions will be placed on the bank as regards its operations in exchange."

The Honourable Mr. Dawkins replied:—

"I am glad to have the opportunity given to me by the

and the desirability of taking the public into our confidence in the matter may, I hope, be regarded as a sufficient excuse. I must commence by a brief reference to the history of the subject touched on in the question. Several of the witnesses before the recent Currency Committee expressed apprehension whether the banking resources of India had kept pace with the growing requirements of the country, and a separate minute was appended to the report of that Committee by Mr. Hambro, advocating the establishment of a strong Central Bank in India. The Secretary of State, in introducing the budget in Parliament, associated himself with Mr. Hambro's recommendation, and expressed a decided opinion that the export trade of India was being financed on too narrow a basis. I may perhaps be permitted to quote his words * * * 'Undoubtedly, banking in India has not kept pace with 'the growth of trade and commerce. The Presidency Banks do their work 'very well, but their capital is small, and, as regards their available cash 'balances, these are almost entirely supplied by one account, namely that of 'the Government * * * The Government account forms a very much 'larger proportion of the cash balances of the Presidency Banks in India than 'is the case here, for at times the Bank of England could almost dispense 'with the Government account and still carry on their business; and it must 'be remembered that the cash balances of the Presidency Banks in India 'form a far more important banking factor there than do the Bank of 'England cash balances here, and that the flow and movement of cash in India 'is very much slower than is the case in England. I have certainly come to 'the conclsion from my experience that we are endeavouring to finance the 'export, commerce and trade of India on too narrow a cash basis.' * * *

"The ex-Secretary of State and Chairman of the Currency Committee, Sir Henry Fowler, took the same line, and explained that he himself would have signed Mr. Hambro's recommendation, had his position as Chairman not precluded him from so doing.

"It was obviously due to such high authorities that their views should be examined with the greatest attention in India. Moreover, the receipt of these views synchronized with a request from the Banks of Bengal and Madras for a relaxation of the restrictions placed on the class of business they may transact. They desired authority to extend their operations beyond the securities of Guaranteed Railways, to securities of Assisted Railways and District Boards, and, as regards railways, the request made by the banks found a powerful advocate in the Acting Public Works Member of Council, Colonel Gardiner, who held strongly that the existing restrictions have seriously hampered railway development.

"The Government of India therefore proceeded to consult the Chambers of Commerce and the Presidency Banks on these important questions, and answers have been received from the three Presidency Banks, the Presidency Chambers of Commerce, and the Upper India Chamber of Commerce, containing valuable information and suggestions. But anyone reading these papers would be struck by the fact that certain of the suggestions require further elucidation, and still more by the fact that several of the opinions expressed are conditional in their character. It was therefore arranged, with the authority of His Excellency, that an informal and free discussion should take place between the Finance Department and the Chambers and Banks, with the object of an interchange of views and explanations.

"My Honourable colleague, Mr. Allen Arthur, representing the Bengal Chamber, the Secretaries of the Banks of Bengal and Bombay and Madras, the latter in the double capacity of representative of the Chamber and of the Bank of Madras, met Mr. Finlay, Mr. O'Conor and myself. The Bombay Chamber, I am sorry to say, was unable, owing to the shortness of the notice, to send a representative.

"I think my Honourable Colleague would bear me out if I say that the discussion was of great utility, and enabled those who took part in it to arrive at a better understanding of the questions involved and also at a very much greater degree of agreement than had previously seemed possible.

"With regard to the first question, that of relaxing existing restrictions in certain directions, the Chambers and banks are unanimous in considering that the extension of the Bank's operations to the securities of Assisted Railway and District Boards is desirable. But the Bank of Bengal accompanied their

expression of opinion with a note of caution. Their letter states, 'My 'Directors are of opinion that these restrictions might be withdrawn with 'safety and advantage without, in ordinary circumstances, overtaxing the 'resources of the banks.'

'I may say that the Government of India have also regarded the question with caution. Personally, I am in entire sympathy with the demand for relaxation if that can be accomplished without risk, and I look at the demand much more from the point of view of the general development of the country than from the special standpoint of the banks. But—and on this point I may speak for the Government of India as a whole—however much existing restrictions may hamper development, no proposal could be entertained which might lead to locking up the resources of the banks in securities not easily realisable, unless those resources can be shown to be amply sufficient in both dull and busy seasons. The disadvantage of the existing restrictions, as matters now stand, would be less serious than the risk of creating difficulties for the existing volume of business.

" To come to the second question. The letters received reveal, and the discussion accentuated, a general consensus that, though the banks find it difficult to employ their existing capital in the dead season, yet in times of pressure in the busy season it is often inadequate, and that some means of temporarily expanding resources—some final banking resort—is absolutely necessary if the stringencies of the last few years are not to recur, and if the extreme and violent variations in the rate of discount, the very worst enemy to sound and progressive business, are to be avoided. I may quote from the letters of the Madras Chamber of Commerce and Bengal Chamber of Commerce. In the Madras letter I find that 'the Chamber is specially impressed 'with the urgent need for legislation which will enable the Presidency 'Banks to expand their supply of loanable funds in time of pressure.' The Committee of the Bengal Chamber 'are convinced that in the busy season 'the banking facilities in India are not sufficient for the trade and the 'satisfactory development of the country, and at times of pressure the 'existing arrangements for giving relief seem to them quite inadequate.' But if the resources of the banks are often inadequate for existing business, if the ordinary requirements of trade and commerce can only be met *on the average*, where is the margin for financing railways, and municipal and district enterprises, to say nothing of new industrial enterprises proposed on all sides?

" Three means of expanding resources in time of pressure were suggested.

" The first was that the Government should definitely undertake to make advances to the banks in time of pressure. I lay stress upon the word 'definite,' and I may quote a passage from the letter of the Madras Chamber of Commerce. 'It is absolutely necessary,' writes the Chamber, 'that any 'arrangement of this kind should be definite so that the banks could obtain 'funds, when necessary, at a moment's notice.'

" The Madras letter hits the nail on the head, but, and I need not labour the point which was unanimously recognised in our discussion last week, it is simply impossible for the Government to pledge themselves by any definite assurance, and to give the banks an open credit to operate upon. When pressure occurs in India, it is usually general and extends to the Government, and the Government might very well find itself absolutely unable to provide loans. The limits of Government action in this direction have, moreover, recently been laid down by the Secretary of State, and it is within these limits that Government assistance must necessarily be confined.

" An alternative remedy has been proposed by the Bank of Bengal, that Government should undertake, when the bank rate rises to a certain height, to give loans from the coin reserve of the Paper Currency Reserve. The proposal is open, in my mind, to fatal objections. It is the duty of Government to keep a coin reserve sufficient to ensure the convertibility of its notes. If the proportion of coin to securities in its total reserve is large enough to allow of loans being made, then that proportion is unnecessarily large. In such a case securities should be substituted for superfluous coin, and the general taxpayer, not any particular section of the taxpayers like

the banks, should benefit thereby. The coin reserve should be exclusively devoted to ensuring convertibility, should be limited to what is necessary for that purpose, and should be held sacred. The answer was made last week in the course of our discussion that the German system—now so generally, and in my opinion, rightly, held up to admiration—of issuing uncovered notes on payment of a tax implied possible resort to the currency reserve for cashing such notes. This may be admitted. But the difference is that in Germany the notes circulate freely as currency, whereas it is very doubtful whether this would be the case in India, where the demand is for hard cash. The mere existence of this doubt, which was, I think, admitted by every one who took part in the discussion, makes an enormous difference, and, moreover, if Berlin or Paris want reinforcements of gold, they can procure it in a few hours from neighbouring centres. India is cut off and isolated, and must proceed with great caution. Her cash reserve must be regarded with the utmost jealousy.

" The third remedy proposed was that the banks should be given access to London—in other words, should be allowed to pledge securities and raise money in London. It was argued that the permission to pledge and borrow in India, which had been extracted from the Secretary of State in 1878 after years of correspondence, had remained a dead letter owing to the peculiar circumstances of India. The objection taken by the Secretary of State to extending this permission to the London market, the risk that the banks might engage in exchange business into which, owing to the great uncertainty of exchange, a large element of speculation entered, may also, it was urged, and I certainly believe, be considered to have disappeared. But I was obliged to point out that the Secretary of State had founded his refusal not only on the question of exchange, but had no less strongly objected to the risk of the resources of the banks being locked up in London. Nothing had happened since 1878 to meet that particular objection. On the contrary, the trade and needs of India have largely increased and banking resources have scarcely increased *pari passu*. I was also compelled to draw attention once more to the relation of the Government deposit to the bank's cash balance in the busy season, and to cite Sir J. Westland's well-known criticism. That criticism has been a good deal disputed. It has been said that the cash balance is not derived principally from one account, but is made up from all accounts. I am perfectly certain that Sir J. Westland would be the first to admit this obvious truism. It has also been said that the Government would not deplete its balance with the banks of, say, 1½ crores, exclusively and primarily, but would draw upon its general balance of eight to ten crores, of which the balance with the banks only forms a part. This is an equally obvious truism, and it is absurd to suppose that my predecessor had not reckoned with it. But Sir James Westland's criticism is really unshaken, inasmuch as he insisted that a situation is unsound when one depositor—and that depositor a depositor peculiarly exposed to sudden calls and contingencies—is placed in a position in which he could, and, indeed, might be obliged, very suddenly, to deplete the cash balance to a serious extent.

". Indeed, on looking closely into the figures, I find that there have been months in which the Government deposit exceeded the whole cash balance of the banks. Not long ago, at one bank the Government deposits exceeded the cash balance by 17 per cent.

" Nowhere is such a position so unsound as in India—where, as the Secretary of State has pointed out, the cash balance is so important a banking factor. The banks have excellent reserves, but could their securities be converted into liquid cash in India at a moment's notice? The Bank of England is far more fortunately situated, but the Bank of England nevertheless keeps the proportion of the exchequer balance to the cash balance within such limits that the sudden total withdrawal of the exchequer balance would hardly affect the bank.

" I am, therefore, compelled to the conclusion that it would be out of the question for the banks to press this proposal, greatly advantageous as its concession would be, unless they propose it under circumstances that may allow of its being entertained with safety, and couple it with the prospect of some increase in capital. That an increase of capital should be expected

to go straight away into a cash balance and reinforce it for any period is, of course, absurd. I only mention this, because the imputation has been made that misapprehension exists on this point. But an increase of shareholders' capital, which would obviously find employment in the busy season at any rate, would involve a corresponding increase in the cash balance, and would relegate the Government deposits to a position of less dangerous importance.

" Another objection to the proposal of the banks under existing circumstances would, I think, be the consideration that, though access to London might conceivably be granted to one strong Indian Bank connected with Government, the question would wear another aspect if three banks are to seek for access. The Government could follow and, if necessary, perhaps influence the operations of one bank. It would not be so easy to do this with three banks, and the possibility of three Presidency banks, each connected with Government, competitively pledging Indian securities against each other in London could scarcely be viewed with favour.

" It seems, therefore, that if access to London is of paramount importance, and it would appear to be so, as I am convinced of the absolute necessity of the banks having a last resort, the fusion of the banks and an increase of their capital are conditions that are inevitably precedent. I may say that, if those conditions were complied with, access to the London market for the purposes indicated by the banks would undoubtedly seem to be highly desirable and strongly to be recommended.

" Another point which was discussed at our meeting last week, that of the desirability or otherwise of transferring the note issue to the banks, immediately confronted us again with the question of their fusion and expansion. A transfer which might be advantageous and feasible if made to one Central Bank would probably be impracticable and attended rather with disadvantage than otherwise if three banks were concerned. The conditions of a transfer of the note issue that were discussed were that the existing note issue should be made over to a single bank, Government retaining the profit on the present currency investment, but indemnifying the bank for the cost thereof from the sum now allotted for that purpose. And, as regards any further issue of notes, the bank would be obliged to keep a reserve partly in coin and partly in securities and would gain the profit on this investment after defraying the cost of the additional notes. Whether a Central Bank should or should not undertake to cash its notes without discount at the three Presidency Capitals, is to my mind a matter for further examination. It would be much to the public advantage if this could be done, and possibly the expenditure involved in such a liability could be made up to the bank in one form or another.

" To recapitulate, I may now say that it seems to me most desirable in the interest of the general development of India, and of railway construction and municipal enterprise in particular, that the class of business in which the banks may engage should be extended. It is even more important that an ultimate banking resort should be afforded to the banks, and that access to London should be authorised. I am therefore prepared to press these questions earnestly upon the Government of India, provided that the conditions are forthcoming, which would justify and render practical such important changes, namely, that the Presidency Banks should amalgamate and should undertake some increase of their capital. It would also, I think, be to the general advantage to transfer the note issue to a bank, but this question is not so essential, although I should be ready to support such a measure. I may perhaps, before concluding, advert to some objections that have been made to any scheme of this kind. It has been stated that the banks would be sacrificed to some financial Moloch in London. As the existing shareholders, I imagine, would have some prior right to subscribing to new capital—as much of this capital, I hope, would be subscribed in India—it seems to me that this apprehension melts into thin air, so long as we deal with a scheme based upon amalgamation. Moreover, I take it that the interests of existing shareholders would assuredly not be prejudiced. It is to be surmised that they would receive new shares equivalent to the average market value of the old shares that would be cancelled, while at the

same time, they would participate in the prospects and advantages opened out to a larger institution.

"It has also been objected that local requirements would receive less attention, and that union would mean subordination of one or two Presidencies to a third. I cannot conceive for a moment that the Government of India would tolerate any scheme of fusion involving the subordination of one Presidency to another, or the neglect of local requirements. I would certainly, Your Excellency, never have the hardihood to bring a proposal of this nature before you. The amalgamated banks, in my view, would have the advantage of an expert direction in London particularly conversant with both the English and Indian money markets, elected by and responsible to the shareholders, who would be mainly in India. In India itself there would be a central management apportioning its time and energies between the various centres, and in close relation to local directorates at the Presidency towns. Nothing would be more unwise for such a bank, as I have ventured to foreshadow, than to deprive itself of the valuable local knowledge, skill and experience of the existing directorates and managements of the Presidency banks. Nothing would better safeguard local interests, wants and requirements than a continuance in a new form of existing local experience.

"In so roughly summing up the policy which may be recommended to the Government of India, a last objection appears to be entertained in some quarters outside the Presidency Banks themselves—and is specifically touched upon in my Honourable Colleague's question—the objection that a bank formed from the union of the three Presidency Banks would monopolize exchange business of all kinds. I would remind those who may be apprehensive on this point that, when the Presidency Banks in 1877 addressed the Government of India upon the question of borrowing in London, they themselves proposed restrictions which would confine them to raising money by pledge of assets and to making remittances in payment of stock or other authorized investments and in repayment of loans. I see no reason why these restrictions should not be maintained.

"I am painfully aware that in so rough a sketch and in so rapid a survey of a matter of this magnitude and importance many details have been omitted, and many points passed over, which require explanation. But if the policy I have attempted to indicate should find favour, I believe that with the able co-operation of the Chambers of Commerce and of the Banks, these details could be filled in, and any outstanding differences could be adjusted. That co-operation, I know, is always willingly given to the Government of India, and perhaps I may express the sincere hope that Your Excellency's Viceroyalty may see the establishment of the gold standard, followed by a comprehensive measure which will give India the full advantage, through access to London, of the new currency upon which she has embarked, and will remedy a situation which is on all hands admitted to be wholly unsatisfactory, to be daily becoming more unsatisfactory, and to be gravely prejudicial to the development of the country."

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No. 17, dated 18th January 1900.

LETTER from the GOVERNMENT OF INDIA to the SECRETARY OF STATE FOR INDIA.

In continuation of our despatch No. 301 of the 24th August, we have the honour to address Your Lordship, on the subject of banking facilities in India. The necessity for dealing with the subject, which we explained in that despatch was emphasized by the circumstances attending the receipt shortly afterwards of an urgent request from the Government of Bombay to authorize the Presidency Bank to deal in the securities of the Bombay City Improvement Trust. As these securities stand in the category of securities of Companies and Railways guaranteed by the Government of India, we had no hesitation in acceding to the wishes of the Bombay Government, and we made the necessary addition to Section 36, subsection 3, of the Presidency Banks Act, which limits the Presidency Banks to dealing in the securities of

Railways or of other Companies, the interest whereon shall have been guaranteed by the Secretary of State in Council. But while this legislation was pending, we also received representations from the Madras Government and Presidency Bank of Bengal, asking respectively that the Banks should be empowered to deal in the securities of District Boards issued with the authority of Government and in the securities of Assisted Branch Lines. The request regarding the securities of Assisted Railways was not new, and had already been rejected by Lord Elgin's Government.

2. We determined that it was not possible to reverse this decision upon such short notice, and without full consideration of the question whether the circumstances of the Banks rendered the relaxation of the Act advisable, and that the same objections must be entertained to the proposal of the Madras Government. At the same time, looking at the matter from the standpoint of railway development, we were impressed by the advantages of enabling Branch Lines to procure the readiest and most immediate financial support. The District Boards also have a claim to similar facilities. The discussion of these questions arose shortly after we had received the report of the Currency Committee, with the expression of Your Lordship's views thereon, in which our particular attention was invited to the separate recommendation made by Mr. Hambro in favour of constituting a strong Central Bank in India. The importance given to this subject in the subsequent debate in the House of Commons on the Budget Statement and the numerous complaints made by witnesses before the Currency Committee of violent fluctuations in the rates of discount in India and of recurring periods of stringency in the money markets of Calcutta and Bombay confronted us with much wider questions than the particular issues raised by the banks. It was necessary to consider whether banking resources have kept pace with the growing trade of India, and whether the whole trade of India is not being financed on too narrow a basis; in short, whether a general revision of the banking arrangements in India is not desirable.

3. We decided, therefore, to elicit the views of the Local Governments, the Chambers of Commerce, and of the Presidency Banks on these important questions. Basing our action upon the request put forward by the Banks of Bengal and Madras, we sent round a circular letter, copy of which is enclosed. In it we invited an expression of opinion as to whether the Presidency Banks Act should be amended so as to allow of their dealing in the securities of Assisted Railways and District Boards, and whether the existing capital of the Presidency Banks was sufficient to admit of these larger powers being given them. Copies of the answers received from the Chambers of Commerce and from the Presidency Banks are enclosed; and any further answers that may reach us from the Local Governments shall be duly forwarded. A perusal of these letters, which contain much information and valuable suggestions, will, we think, leave upon Your Lordship's mind the impression that many of the opinions recorded required further elucidation and were peculiarly conditional in character. It was, therefore, arranged that our Honourable Colleague in charge of the Finance Department should meet the representatives of the Chambers of Commerce and Banks in a free and informal conference, with a view to an interchange of explanations. The result of that conference, as was stated in the answer given by our Honourable Colleague in the Legislative Council on the 5th instant, revealed a much greater degree of agreement between the Government and the various institutions concerned, and between the various institutions themselves, than appeared from the letters themselves. We do not wish to press this point unduly or to convey the idea that there are no outstanding differences of opinion. But having regard also to the change which has come over the attitude of the principal organs of the press towards these questions, we venture to think that there is, at any rate, sufficient agreement to render probable ultimate acquiescence in certain recommendations which we desire to make, and that we are not inviting Your Lordship's consideration to a matter which will have no practical issue.

5. In dealing with the second point, whether the existing capital of the Banks is sufficient to admit of the wider powers advocated being granted to them, it will be observed that the Chambers of Commerce and the Banks preferred to pass at once to the larger question of the general banking resources of India. There is a remarkable unanimity of opinion that, though the Banks find it difficult to employ their capital profitably in the dead season, yet in the busy season their resources are inadequate. The Bengal Chamber, for instance, is "convinced that in the busy season the banking facilities in India are not sufficient for the trade and satisfactory development of the country, and that at times of pressure the existing arrangements for giving relief to them are quite inadequate." It would be impossible, looking at the history of recent years, to dispute the correctness of the statement. But if the resources of the Banks are not more than sufficient to meet the ordinary requirements of the present trade and development on the *average*, it may be asked where the margin is to be found for financing railways and municipal or district undertakings without prejudice to existing interests? The allegation, again, that the Presidency Banks cannot profitably employ their capital in the dead season must be regarded in the light of the employment which they find for their capital during the whole year, for though the dead season, which is becoming less marked, may still be more marked in India than elsewhere (and in all countries there must be relatively busy and relatively idle seasons), yet the large and steady profits of the Banks and the important sums put away to reserve sufficiently indicate profitable employment of their capital in any twelve month.

6. Your Lordship will further observe in the correspondence that the Banks draw a distinction between shareholders' capital and banking resources in general, with particular reference to facilities for temporarily expanding banking resources other than permanent capital. The word "capital" was advisedly used in our reference to the Chambers and Banks. It was not forgotten that permanent capital might be supplemented by other facilities such as the banks have indicated. But we felt that other facilities depended, to a great extent, upon an increase of capital, and were conditional upon it. Attention had been repeatedly drawn before the Currency Committee to the dangerous tendency of the Banks and of trade generally in India to look to the Government in any difficulty. That tendency cannot be corrected unless the Banks can look to some stable and permanent resources of their own. It was, moreover, within our recollection that when the Bank of Bengal advocated the amalgamation of the Presidency Banks in 1867, it was proposed, and the proposal apparently commanded assent, that the capital of the united Bank should be 5 crores. Yet the capital of the three Presidency Banks was then double the amount it had stood at six years previously, while there has been no increase since. We also bore in mind the undesirable proportion which the Government deposit often bears to the total cash balances of the Bank; the Government balances having on some occasions actually exceeded the total of the cash balance at individual Banks. Such a proportion cannot, we think, be rectified unless the banks attract more deposits and open more branches, which would be rendered possible by an increase of permanent capital. The number of branches has remained virtually stationary in late years, while several local Banks with very moderate capital have sprung up and attract very considerable deposits. But it cannot be said that these local Banks occupy the whole field; and we would invite Your Lordship's attention to the serious claim put forward by the Upper India Chamber of Commerce for the establishment of branches by the Banks which enjoy the advantages of the Government balances. Generally speaking, moreover, we reflected that the growth of trade and the development of India in recent years render necessary some increase of permanent banking capital; and if the local Banks to which we have referred above have to some extent met this want, it is probable that the withdrawal of capital by other Banks with head-quarters in England concurrently with the fall in exchange has more than counterbalanced this re-inforcement. These observations will, we venture to think, be borne out by an examination of the various measures suggested to provide for temporary expansion of banking resources.

7. It will not be necessary to deal at much length with the first measure suggested, namely, that the Government should undertake to make advances to the Banks in time of pressure. But to obviate any possible misunderstanding, we may explain that this is in nowise a question of the return by Government into the general circulation of money raised by taxation. Experience has proved in India—on two occasions at least prior to the establishment of the Government Reserve Treasuries the banks demurred to the Government drawing out its own deposits freely—that a certain sum must be kept apart under the absolute control of Government, while, in addition to the Reserve Treasuries, there are also treasuries at places where the banks have no branches. It is from these sources that the Banks desire to receive advances. But no undertaking of this kind on the part of Government would meet requirements unless it were unconditional, for, as the Madras Chamber of Commerce justly observes, "it is absolutely necessary that any arrangement of this kind should be definite, so that the Banks could obtain funds, when necessary, at a moment's notice." It would be manifestly impossible to give any such pledge. Monetary pressure in India is usually general, and the Government, not being exempt from sudden calls at such times, might very well find itself absolutely unable to advance funds when urgently called upon to do so. We recognize the desirability of affording relief to the public when practicable, but the limits within which this can be done have recently been laid down by Your Lordship, and beyond those limits it would not be possible to travel. Moreover, regarding the general danger involved in the financing of trade by Government we have before us the words of Lord Salisbury's despatch of 6th May 1875: "Capital supplied by Government, and not representing the savings of the community, is a resource on whose permanence no reliance can be placed, and which therefore tends to lead traders into dangerous commitments." The warning conveyed in those words still holds good.

8. An alternative measure suggested by the Bank of Bengal is that, when the Bank rate rises to a height that indicates undue pressure, loans should be made from the coin reserve of the Paper Currency Department. This is a suggestion which is open to fatal objections. Our duty, as we conceive it, is to maintain that proportion of coin in our total currency reserve which is necessary for ensuring convertibility. If the proportion were large enough to admit of loans being made therefrom, then it would be unnecessarily large, and the general taxpayer, not any particular section of the community like the banks, should benefit by the substitution of securities for superfluous coin. It has been urged in answer that the German system, which now finds so much favour, of allowing the issue of uncovered notes on payment of a tax implies possible resort to currency reserves for encashing such notes. And the difficulty of giving out coin from the Paper Currency Reserve might, it is contended, be obviated by the Government loans being made in the form, not of coin, but of uncovered notes, on payment of a sufficiently high rate of interest for this accommodation. We are not prepared to negative this modified suggestion absolutely. But we may point out that in Germany notes circulate freely as currency, and in India the principal demand in times of pressure is for hard money up-country. India, moreover, is peculiarly isolated and could not, like Germany, procure a reinforcement of gold from a neighbouring market. We propose, however, to return to this subject again.

9. The third measure proposed for securing an ultimate banking resort is that the Banks should be given access to the London market: in other words, should be allowed to pledge securities and raise money in London. The permission given by the Presidency Banks Act of 1876 to deal in the securities of the United Kingdom has remained a dead letter, and the authorization conferred by the amending Act of 1879, to pledge and borrow, as long as it is confined to India, will also remain a dead letter, while, it is forcibly insisted, one objection then urged to extending the concession may be considered to have happily disappeared, namely, the risk of the Banks becoming engaged in exchange business into which, until recently, there entered a large element of speculation. The objections of Your Lordship's

predecessor to extending the permission to England were not, however, limited to the question of exchange. He was no less strongly opposed to the proposal on the ground that no risk should be incurred of the resources of the Banks being locked up in London when they might be required in India. It does not seem to us that whatever force there was in that objection has been at all removed by the subsequent course of events. On the other hand, the position of the Presidency Banks in one important respect, which has been commented upon by Your Lordship, has certainly not improved. We refer again to the proportion of the Government balances to the total cash balance of the Banks in the busy season. There have been occasions in recent years in which the Government deposits have exceeded the total cash balance of an individual Bank by 10 to 17 per cent. The Presidency Banks have excellent reserves, it may readily be admitted. But these reserves could not, in the peculiar circumstances of India, be suddenly converted into cash, and it seems therefore eminently undesirable that the account of one depositor, and that depositor a Government exposed, as the Government of India is, in a most unusual degree to sudden calls and emergencies, should occupy a position of such dangerous importance. To look to no graver contingency, it is clear that a sudden call by Government for its money would influence discount rates in a manner which would seriously hamper trade. It would therefore be a doubtful experiment to allow to Banks, so situated as regards their cash balances and the possibility of realizing their investments, freedom in operations outside India, or to encourage the trade of India to look upon this remedy as sufficient in itself. Recourse to the London market might indeed not always even be practicable; and even if it were practicable, and were undertaken to increase temporary resources, the operations of the Banks, however beneficial in one direction, might involve questions of repayments and renewals of loans which would create a new element of uncertainty, and might interfere with the discretion of Government as regards its deposits. While we do not, therefore, dispute that it would be advantageous under altered circumstances to give the Banks a last resort in London, and while we fully admit the desirability of contributing to facilities for temporary expansion of resources, it is to an increase in their permanent capital which, finding employment in the busy season at any rate, would lead to larger balances, that the trade of India has a right to look primarily for adequate relief. The question of allowing access to London, again, wears a different aspect when examined in relation to three Banks from the complexion that it would assume in relation with one Central Bank. It would be more difficult to follow the operations of three banks than of a single institution, and we could not contemplate with equanimity the contingency of three Presidency Banks all connected with Government, competitively pledging Indian securities in the London market.

10. Another important point which arose in the course of the recent discussions with the Banks was the question of transferring the note issue to a single Bank. The transfer of the note issue to more than one Bank has not even been suggested; and indeed it is not necessary to mention it. The conditions of a possible transfer to one Central Bank that have been suggested are as follows. The existing note issue, with the custody of the reserve placed under Government supervision, should be made over to a Bank, Government retaining the profit on the present currency investment, and indemnifying the Bank for the cost of the note issue from the sum now allotted in our estimates for that purpose. As regards any further issue of notes, the Bank would keep a reserve under Government inspection of one moiety in coin and one moiety in approved securities, and would receive the net profit on these additional issues. This is a proportion which is generally favoured by modern authorities, and that was recently adopted, with the concurrence of Her Majesty's Treasury, when the new National Bank of Egypt was founded in 1898. In no case should the existing notes be suddenly withdrawn. They might be replaced as outstanding notes are withdrawn by new notes of the Bank if it were decided that the Bank should issue a new form of note. But as any change in the form of the note might involve temporary contraction in the paper circulation, as change in such matters is peculiarly undesirable in India and as the reserve would be under

the supervision and control of Government, we should have no objection to the notes continuing in their present form, with the possible addition of the name of the Bank and the counter signature of the officer employed to supervise the reserve. We are of opinion, though not forgetting the objections that have been previously raised to such a course in India, and indeed recently adverted upon by so high an authority as Lord Northbrook, that there is nothing in the peculiar circumstances of India to prevent the note issue being transferred to a Bank. We are, moreover, disposed to believe that it is through the agency of a Bank that the note issue may have a larger development in India. An ulterior advantage to which we would look in the transfer of the note issue would be the encashment without discount of the notes at the three Presidency towns at least. It is possible that this undertaking would in the beginning involve some outlay on the part of the Bank. We are not without expectation, however, that arrangements could be made for meeting this difficulty, and the abolition of our currency circles is a matter, apart from any question of transferring the note issue, that calls for attention.

11. But while we see advantages in the transfer of the note issue to a Central Bank, and should favourably regard any proposal in that direction, we do not regard the transfer as absolutely essential or as one of the remedies which the present situation imperatively demands. Moreover, we realize that the transfer must involve Government in some expense, and render necessary the increase of our cash balances by at least two crores, and possibly by a greater amount, owing to the assistance which our Comptroller General now derives from the currency chests in his resource operations. We refer to a system which has gradually grown up in India. The Comptroller General, for instance, on receipt of land revenue up-country, say at Umballa, directs a certain amount of this receipt to be passed into a currency chest at Umballa, and after telegraphic intimation that this has been done releases a corresponding amount of coin in the Calcutta Paper Currency Reserve to meet Your Lordship's Council Bills or other disbursements. The amount passed into the currency chest at Umballa is not sent down to Calcutta to fill up the void created—that void is filled up as rupees gradually accumulate in Calcutta, and eventually the rupees in the Umballa currency chests are passed over to the General Treasury at that place. Strictly speaking, no doubt, the coin reserve should be held at the place (Calcutta) where the notes can be presented for payment. But in an emergency the rupees could, there is little doubt, be sent down from up-country to Calcutta in time to meet demands, while the expense of actual remittances of coin is avoided, and the Comptroller General is enabled to work with lower balances. The system, however, has perhaps been unduly extended in recent years, and we propose rather to curtail it. One result of any transfer of the note issue to a bank would be to prevent our Comptroller General helping himself with the currency chests as at present. The increase in his balance which would, on this hypothesis, be rendered necessary might be met by substituting two crores of new securities for two crores of rupees in the currency reserve, and placing the two crores of coin in the general balances. We should view such a substitution without any alarm. It appears to us that the existing coin reserve, 17 crores of coin as against 10 crores of securities, is unnecessarily large. The use to which the coin reserve has been put under the system just described, and the readiness with which the banks and Chambers of Commerce indicated it as a source for loans, bear out our contention. We would prefer to advance gradually to a situation in which one-half of the Paper Currency Reserve should be in coin and one-half in securities. And, whether the note issue remains with the Government or is transferred to a bank, the profit on the increase of securities might with propriety be devoted to securing the abolition of the eight currency circles or the encashment of all notes at the Presidency towns.

12. We trust that the foregoing remarks will have made it clear to Your Lordship that it is desirable to relax in certain directions the restrictions now imposed on the class of business which the Presidency Banks may transact, but that it would be imprudent to relax those restrictions under existing

conditions. It will also be apparent that the general banking system is unsatisfactory, but no less apparent that the remedies proposed would be of doubtful efficacy in present circumstances, and that they could not be recommended unless the Presidency Banks unite their resources and improve their position. Objections, however, have been urged to the fusion of the Presidency Banks in spite of the general advantages derivable from amalgamation. But these objections are largely based on misapprehensions, and would, to a great extent, be removed if the principles on which amalgamation should be affected are explained. It is not the case that Indian interests would not be consulted. The existing shareholders of the Banks would justly claim a prior right to subscribing for new capital; and a very large proportion of that capital would, without doubt, be subscribed in India. At the same time the interest of the shareholders in their present property would be strictly conserved and safeguarded, while they would participate in the prospects and advantages opened out to a larger institution. Nor would local requirements be sacrificed or one Presidency be unduly subordinated to another. Nothing would be more unwise than to discard the valuable local knowledge, skill, and experience of the existing directorates and managements of the Presidency Banks. Such local experience would no doubt be continued in the form of branch directorates related to a central management, apportioning its time and energies between the various provinces, and supervised by an expert direction in London. The asseveration has also been made that no increase of permanent capital is necessary. In this opinion we cannot agree, and we trust our arguments will have convinced Your Lordship that the Banks must strengthen their position in this respect. We will only add, though we strongly recommend that an amalgamated Bank should be given a last resort in London under proper conditions, that such a Bank will thereby become the last resort in India, and that both the Government and the trade of India have a right to look for ample strength in such an institution. The objection has proceeded in some measure from exaggerated ideas of the fresh capital which the amalgamated Bank would be expected to raise. We believe that an amount of three crores, equal to two million sterling, would be sufficient to ensure stability and would have every prospect of being fully utilized in a short time. There is no reason, in our opinion, to go beyond this limit, but we admit that the exact amount of fresh capital is a question which may be left for further discussion with the Banks and Chambers of Commerce, if they assent in principle to an increase. There still remains one objection in connection with allowing a Central Bank access to London, which has been pressed upon us by the Exchange Banks who apprehend that such a bank, enjoying the use of the Government balances and possibly entrusted with the note issue, would be placed in a position of unfair competition with themselves. We cannot see that the Exchange Banks make out a strong claim for protection, and a suggestion which has been made that a Central Bank should be bound to make any and all remittances through their agency is out of the question. But there is no desire to disturb existing business unnecessarily, and we think that the restrictions proposed by the Presidency Banks in 1877, namely, that they should be confined to raising money by pledge of assets and to making remittances in payment of stock or other authorized investments purchased or acquired for the Bank in England, and in repayment of loans arranged for them, might be maintained.

13. To a bank of this character constituted on a sterling basis we should have no objection to transfer our note issue on the conditions recited. The question would then arise to what extent the coin reserve should be held in gold or silver, both metals being unlimited legal tender in India. The experience which we shall shortly acquire of the facility or otherwise with which sovereigns will pass into the general circulation of the country may enable us to advise Your Lordship further on this important point. We would be inclined at this juncture to say that the Bank should not hold less than five millions in gold, this being the minimum gold reserve that we contemplate maintaining for the present, as explained in our despatch of the 14th December last. By minimum we mean a minimum amount except in so

far as this might be temporarily reduced and replaced by silver through the action of Government. For the gold reserve, whatever its amount, should be so far at the disposal of Government that Government should have the right to take the whole or part of it over at any time on paying into the reserve the equivalent in rupees. As regards paying out gold, the Bank should occupy the same position as the Government of India occupies at this moment, or as the Bank of France holds, namely, that it should be under no legal obligation to pay out gold. Ultimately, perhaps, and in agreement with the Bank, certain classes of notes might be declared payable in gold at the option of the holder. But there is no present necessity for entering on this question.

14. We have also carefully considered, in connection with the establishment of a strong Central Bank, whether the German system of issuing uncovered notes on payment of a tax could not be introduced. In our opinion, if it were possible to adopt such a system at all, it would be greatly preferable to adopt it in connection with a bank, to which the note issue had been transferred. Theoretically we admit that the system might be grafted upon the present management of the paper currency by Government. But a bank would be able to measure the need and extent of accommodation much better than a Government could hope to do, and we believe that in all countries where it has been adopted, the agency of a bank has been chosen for working this system. Moreover, in India recourse in any form to a currency reserve in the hands of Government would encourage the dangerous tendency to look to and rely upon Government exclusively. From this point of view there would be particular objections to applying the system to the currency reserve while it remained under Government control. We have stated above that the demand in India being generally for hard cash it is probable that a very large proportion of any uncovered notes issued would be immediately passed into the bank for cash. But only experience could show what that proportion would be, and it may be found that the notes would return less rapidly than is anticipated, while the authorisation might prove a useful alternative last resort to the bank in the case of the London Market being temporarily unavailable. The Bank of Bengal, indeed, claims that in 1860 the Bank, which then possessed the right of note issue, did, under the sanction of Government, successfully avail itself of this expedient during a monetary crisis. But we think that there were circumstances on that occasion which do not allow the instance cited to be regarded as a complete precedent. We would, on the whole, recommend that a Bank, fulfilling all the other conditions we have enumerated, should be allowed to issue uncovered notes upon the payment of a tax of 10 per cent.

15. It must also be expected that a Bank of this standing will claim, with some reason, the suppression of the Reserve Treasuries, which are a necessary but undesirable contrivance, and the gradual transfer to itself of the whole Government balances at head-quarters. It would, however, be unwise and impossible to make any pledge on this point. The larger the Bank's resources are, and the more extensive the area covered by its branches, the easier will it be for Government to proceed in the direction here indicated.

16. In conclusion, we may perhaps be allowed to express the belief that, if Your Lordship finds it possible generally to accept the recommendations we have put forward, remedies may be found for a situation admitted on all hands to be unsatisfactory, and to be becoming more unsatisfactory every year. We should then look to a control being exercised over the money market which the Presidency Banks do not pretend to have gained, to greater efficiency and to unity in the management of banking resources, to a more rapid return into the general circulation of money raised by taxation, to an accelerated development of railway and other enterprises, and to a relative steadiness in the rates of discount which would be of vital importance to sound business in this country. It is only through some comprehensive measure of this character, which would increase the permanent banking resources of India while at the same time opening the door

to a last banking resort, that India may count upon reaping the full advantage, through access to London, of the currency policy upon which she has embarked.

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE FOR INDIA, No. 56, dated 22nd February 1900.

MY LORD,

WE have the honour to forward, for your Lordship's information, a memorial addressed to his Excellency the Viceroy, in which the Exchange Banks of Calcutta protest against the suggestion that a new bank formed by the amalgamation of the three Presidency Banks should be allowed to borrow in London by pledge of assets or otherwise and make remittances to England by bills of exchange or otherwise in repayment of loans and also in payment of the price of stock or other authorised investments purchased or acquired for the bank. The Memorialists admit that they can have no objection "to the mere amalgamation of the Presidency Banks," and their specific prayer appears to be confined to the suggestion in the 21st paragraph that the sterling transactions of the proposed Bank of India "should be confined to "the shipment and re-shipment of gold, and that the bank should be "prohibited from selling or buying sterling bills or selling or buying "telegraphic transfers save, of course, through existing channels, namely, the "Exchange Banks."

2. As your Lordship will now have learned from our Despatch No. 17, dated the 18th January 1900, the suggestion which has aroused the apprehensions of the Memorialists has been definitely adopted by our Government and submitted for your Lordship's approval. Our despatch contains a full statement of the grounds on which our proposals are based, and in particular includes a brief expression of our views on the claims now urged by the Exchange Banks. We should have been content to forward the present memorial without comment did we not think it due to the Memorialists and the important interests that they represent to show that we have not failed to give the fullest consideration to the objections and suggestions that they have put before us.

3. It is stated by the Exchange Banks in the first and second paragraphs of their memorial that for the last forty years they have "practically financed the whole export and import trade of the country," while the Presidency Banks have devoted themselves entirely to financing the internal commerce. We cannot for a moment admit the correctness of this assertion. Though the Presidency Banks have hitherto been prohibited from engaging in exchange operations their resources (and through them the resources of the Government also) have been freely placed at the disposal of all sections of the commercial community, including the Exchange Banks themselves who now imply that they have financed the whole foreign trade with their own capital exclusively. On this point we may let the Memorialists speak for themselves. In December last the associated Exchange Banks deputed two representatives (who are among the signatories of this memorial) to meet our honourable colleague in charge of the Finance Department and to urge upon the Government that any loans made by the Government should be made equally to the Exchange and to the Presidency Banks. When it was intimated that the Government would be unlikely to depart from their past practice of giving all loans *through* the Presidency Banks, the deputation asked that the Presidency Banks should not be permitted to pass on the Government money except to the Exchange Banks, or at any rate that the Exchange Banks should have the first call on it to the exclusion of local banks and merchants, European and Native. A few weeks later the Government were suddenly and urgently pressed by the managers of two of the Exchange Banks to advance Rs. 30 lakhs to the Bank of Bombay. It was represented that unless the money was forthcoming, there was danger of a serious commercial crisis, and of an important failure. The Exchange Banks, it was explained, would not provide money for their customers, though money could be obtained in a few hours under Act II of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling. Sooner than

have recourse to this means of obtaining funds they frankly preferred to let the crisis come. Happily the crisis was averted, mainly, we believe, by the action of one of the Presidency Banks.

4. It would therefore seem that the impression conveyed by the opening paragraphs of the memorial requires some qualification. At least it is not clear that the foreign trade of India can invariably rely upon being financed by the Exchange Banks, who, very naturally and properly, employ their money wherever it can be employed to most advantage, nor is it certain that the Exchange Banks are free from the besetting tendency to look to the Government balances instead of to their own resources. The recommendation, therefore, that the proposed amalgamated bank should be allowed, under certain restrictions, to borrow in London is not ruled out of court *in limine* by the consideration that the foreign trade is already amply financed by institutions exclusively employing their own capital.

5. But the serious objections of the Memorialists are that the restrictions which it is proposed to place upon the operations of the projected bank are insufficient, and will expose them to dangerous competition. Moreover, they argue that the competition to which they fear to be exposed will not merely be the competition of a rival institution, but the competition of an institution "with all its contemplated resources and privileges and prestige as a State bank." We desire, as we stated in our previous despatch, to avoid any unnecessary disturbance of existing business, and we regret that the advocacy of powers to borrow in London has aroused such deep apprehension. But we cannot but consider that this apprehension is much exaggerated. We can see no reason why a bank of India should not make its own remittances; the restrictions which we have proposed and which are correctly* stated in the fourth paragraph of the memorial, will prevent it from doing more. We could have wished that this contention of the banks, which appears to us to be untenable, had been supported by some clearer indication of the actual manner in which the competition they deprecate may be expected to prove unfair and injurious. The demand that the Presidency Banks should have power to borrow in London is supported by practically every merchant in India, and will be still more vigorously supported if your Lordship should negative the proposals which have been made in several quarters for the free use of the Currency Reserve for loans.

6. We are at some loss to understand the further allegation of the Exchange Banks that they will not only be exposed to competition but to the competition of a State institution, or to follow the argument that the proposed legislation "will tend to an absolute reversal of the policy of 1876 when "the Government retired as much as possible from all connection with the "affairs of the Presidency Banks, except so far as to keep a portion of their "balances with such banks." The term State Bank can of course be used in several gradations of meaning, and seems to be so used in this memorial. The Memorialists, indeed, appear to argue that any bank, the custodian of the public balances, must necessarily be a State Bank: if this is their real meaning, it would be fair to conclude that they consider the Bank of England is a State Bank, which is notoriously not the case in the accepted meaning of ordinary language. But we imagine that they would not admit this conclusion, and we doubt whether they would deny that Government, without any question of constituting a State Bank, is entitled to use a bank, in a department separated from the Banking Department proper, as its agent for the management of its note issue. This is the relation between Her Majesty's Government and the Bank of England, and we propose to reproduce this arrangement in India with the modification that a link may be established between the proposed banking and issue departments, if your Lordship assents to the adoption in any form of the German system of authorising the issue of uncovered notes on payment of a tax. But this is a point not touched on by the Memorialists, and the arguments that they direct against State competition seem hardly germane to the discussion of a project in which State intervention is restricted within such well-defined and well-recognised limits.

* Except for the use of the word "India" instead of "England" in the last line but one of the paragraph.

7. We notice, moreover, that the Memorialists have no objection on principle to our allowing resort to the currency reserve in times of financial stress; indeed they suggest this expedient as an alternative to the augmentation of banking capital. In our despatch of the 18th January we have explained our objections to this proposal, and we should not further discuss it here, but that the Memorialists have sought to justify it by a reference to the occurrences connected with the failure of the old Bank of Bombay in 1868. It will be well for us to recall the circumstances which render this precedent inapplicable. In June 1865 a severe commercial crisis occurred in Bombay, and there was a run on the bank, which was already crippled by reckless management. The Governor of Bombay telegraphed that unless he could give an assurance that the Government was prepared to advance the bank Rs. 150 lakhs from the currency reserve there would be a great danger of the bank suspending payment, a result which he declared might involve "disaster, financial and political, more extensive than the mere stopping of the bank." The Government of the day authorised him to use his discretion: the assurance was given, and the panic allayed, without, as it proved, any actual withdrawal from the currency reserve. The facts were reported by the Local Government to the Secretary of State, who strictly prohibited the use of the reserve for this purpose on future occasions (Despatch No. 71, dated 8th September 1865). In February 1867 another panic occurred, and the Local Government gave notice that the Government were prepared "to support the bank with all their available resources." On this occasion the currency reserve was not mentioned, and was probably not intended. The reference in the memorial to these incidents would have been more apposite if they had been used to illustrate the evils of State connection with banking institutions. We, at any rate, can find in them no justification for any departure from the rule of maintaining the currency reserve for its proper function of guaranteeing the convertibility of the paper currency.

8. In the meantime we are informing the Exchange Banks that their memorial is being transmitted to your Lordship.

We have the honour to be, &c.,

(Signed) CURZON OF KEDLESTON.
" E. H. H. COLLEN.
" A. C. TREVOR.
" C. E. DAWKINS.
" T. RALEIGH.
" DENZIL IBBETSON.

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To His Excellency the Right Honourable GEORGE NATHANIEL BARON CURZON of Kedleston, G.M.S.I., G.M.I.E., in the County of Derby in the Peerage of Ireland, Viceroy and Governor-General of India.

The Humble Memorial of the Exchange Banks of Calcutta.

That your Memorialists are bankers, and that most of them have for the last forty years and upwards been intimately associated with the trade and commerce of India, and have practically during that period financed the whole export and import trade of the country, and have thus enabled that trade (which is still being financed by your Memorialists) to meet the fluctuations of exchange and to develop it to the extent to which it has developed of recent years. Your Memorialists have, for that purpose, utilised their capital, which amounts to about six millions sterling or thereabouts.

2. That in doing this they have met a great want of the trade aforesaid, the Presidency Banks since 1876 having been prohibited from financing such trade and having in consequence devoted themselves entirely to financing the internal commerce of the country.

3. That your Memorialists have under these circumstances noticed with considerable apprehension the recent suggestion that the new bank proposed to be founded should be allowed to borrow in London, and enter into sterling

operations in connection therewith—a request which was refused to the existing Presidency Banks in the year 1878—and they have observed that the Financial Member in his speech in Council on 5th January 1900 expressed an opinion that he saw no reason why, subject to the restrictions suggested by the Presidency Banks themselves in 1877 (on the occasion of the above-mentioned request being preferred), such course should not be followed, and that he thought that the Exchange Banks need have no apprehension on that account, as these restrictions would sufficiently provide against the new bank interfering with them.

4. That the restrictions so suggested by the letter of the Presidency Banks were that the banks should have power—

(1) To borrow money, either in India or England, by pledge of assets or otherwise, on such terms as to repayment of interest, &c., as the said bank may from time to time arrange;

(2) To make remittances to England from time to time by Bills of Exchange or otherwise as may seem expedient in payment of the price of stock or other authorised investments purchased or acquired for the banks in India, and also in repayment of loans arranged for there.

5. That your Memorialists believe that these restrictions are not stringent enough to prevent the proposed Presidency Banks, or the new bank proposed to be constructed by their amalgamation, from entering the Exchange markets and competing with your Memorialists in the purchase of bills on London—a business which, as they have pointed out, has been carried on by them for forty years and upwards with great advantage to the commerce of India—and they trust that such competition will not receive either the approbation or the active assistance of the Government of India, as it will have in all probability the effect of seriously interfering with your Memorialists in their present sphere of operations; but while they recognise that it was not the intention of Government or the Financial Member that the proposed amalgamated bank should so compete or deal in exchange, they believe that this result will take place unless more stringent restrictions are imposed.

6. That they would therefore venture respectfully to submit to your Excellency their views on the subject of the present scheme of amalgamation of the Presidency Banks and the proposal to afford access to the London market, and the restrictions they propose in the hope that they will receive at your Excellency's hands that sympathetic consideration which your Excellency has ever evinced for the interests and prosperity of British capital in India.

7. That your Memorialists also believe that if the state of affairs provided for by Act II. of 1898 had been allowed to continue and to fully develop, there would be no necessity for any large increase of the capital of the Presidency Banks, and that with a stable rupee all the money wanted for the normal requirements of Indian trade and development could and would be found by your Memorialists and sterling capitalists engaged or interested in the commerce of India, especially if (as indeed has been suggested by the Bank of Bengal itself as well as by the Chamber of Commerce) in addition to those resources resort could be had to the paper currency reserve as has been done in times of financial stress, such as the Bombay Bank crisis of 1868; and in this connection your Memorialists would in passing observe that the very recent stringency in the money market, which was so acutely felt at Bombay in the middle of January 1900, was not due to the inability or unwillingness of Exchange Banks to meet the trade requirements, but was directly attributable to the action of the Secretary of State in suddenly cancelling the then subsisting notification issued under Act II. of 1898 providing for the payment of rupees in India by telegraph against the deposit of sovereigns in London at the stable rate of 1*s.* $4\frac{5}{32}$*d.*, such action being wholly unexpected, having regard to the objects and reasons for the extension of Act II. for two years by Act VIII. of 1898, which are printed at page 279, Part V. of the "Gazette of India," July 9th, 1898.

8. That as regards the introduction of English capital into India, your Memorialists beg to draw your Excellency's attention to the observations

made in an article in the "Money Market Review," of 30th December 1899, with which as a whole they agree. A copy of this article is appended to this memorial.

9. That to the mere amalgamation of the Presidency Banks your Memorialists, of course, can have no objection: but they would at the same time point out (1) that the proposed legislation in its entirety will tend to an absolute reversal of the policy of 1876, when the Government retired as much as possible from all connection with the affairs of the Presidency Banks, except so far as to keep portion of their balances with such banks; (2) that such legislation will invade the sound existing restriction, under section 37 (*e*) of the Presidency Banks Act, 1876, as amended by Act V. of 1879, whereby such banks are prohibited in effect from advancing to or on the personal security or credit of firms or individuals not resident or represented in India; and (3) that the new bank will be to all intents and purposes a State Bank with privileges as to its note issue.

10. That, further, with regard to the proposal to allow the Presidency Bank or the new bank to borrow in London, and to enter upon all sterling operations incident thereto, your Memorialists would also beg to point out and to lay great stress on the fact that by the proposed new departure the connection between the Government and the Presidency Banks would be drawn closer, and that the Presidency Banks, or their amalgamated representative, having to all intents and purposes become a State Bank, all the well known objections to the State competing with its subjects in matters relating to private enterprise would in that case become applicable.

11. That the intervention of the State in matters of trade has always been deprecated in England and in countries subject to British influence. State interference in such matters (the limits of which are pretty well known) has been generally confined to the control of railway and other large monopolies, and to the acquisition of postal and telegraph communications, and such State intervention or interference is based generally on the principle of protecting the less moneyed and dependent class of the community, and all schemes, except with that end, has been looked on with great suspicion and circumscribed and restricted in every way; the case of State railways in India being a solitary exception to this policy, based merely on the reluctance of private enterprise to come forward in the particular matter.

12. That on the acquisition by the British Government of the telegraphs in 1867 the rights of the railways—the companies with whose rights the proposal of the Home Government conflicted—were recognised to the utmost, and their interests were also carefully protected by their representatives in Parliament—a course which is always open in England, where all interests are in some way represented in the Legislature, but which protection is not always open to interests in India when menaced by legislation.

13. That similar precautions were taken by the Government in 1886 on the starting of the parcel post to protect the carrying interests and to disarm opposition to that project, and there are numerous other instances of this nature, and in the matter of banking your Memorialists may point out that the extent of the operations of the British Postal Savings Bank is at the present moment causing considerable apprehension, and every effort is being made to prevent any suspicion of competition with the banking interests of that country, and such competition is deprecated and discountenanced in every possible way.

14. That your Memorialists humbly submit it is therefore incumbent on the Government of India to investigate this matter with more than ordinary care, considering the magnitude of the interests involved, and the results of such competition, when once entered into, and in this connection it is not overstating the case to say that if the new bank, with all its contemplated resources and privileges and prestige as a State Bank, were allowed to enter into active rivalry with the existing Exchange Banks, the latter would practically be swept out of the field and effaced, regard being also had to the magnitude of exchange operations in which the new bank would, under its proposed constitution and powers, be inevitably engaged, unless it were altogether debarred from any exchange operations.

15. That in the matter of State Banks your Memorialists quite admit that such banks are practically a necessary consequence where large amounts are raised by taxation, and that the Government must keep their balances somewhere, and that the custody of such balances must in the nature of things benefit one particular bank above others; but they believe that the tendency of modern times is gradually to withdraw as much as possible from such preference and influence, and they suggest that such facilities should in no cases be extended more than is absolutely necessary, and certainly not where they would lead to rivalry with old-established institutions.

16. That in the case of India and elsewhere such privileged banks are able to employ the Government balances as mercantile loans greatly to the public benefit, but it is a remarkable feature of the present proposal that the Bank of Bengal, in their letter to the Government on 2nd December 1898 (para. 17), suggest that if the Paper Currency Reserves were placed at their disposal, rules could easily be framed that would guard against use by the Exchange Banks of such reserves—a suggestion which, if pursued, would invidiously oust the Exchange Banks from privileges which would be open to the rest of the mercantile community.

17. That with such proposals of the Bank of Bengal before them, the Exchange Banks feel the necessity for re-asserting "that the discrimination "by the State between different classes of occupations and the favouring of "one at the expense of the others, whether that one be farming or banking "printing or railroading, is not" (to adopt the words of a great American publicist) "legitimate legislation, and is an invasion of the equality of right "and privilege which is a maxim of State Government, their occupation is "honourable, it is beneficial to the public, and it deserves encouragement. "It is not the business of the State to make discriminations in favour of "one class against another, or in favour of one employment against another. "The State can have no favourites. Its business is to protect the industry "of all and give all the benefits of equal laws."

18. These propositions have been in effect recognised by the Government of India in relation to railway matters. In 1871 the Indian Government enunciated the proposition that it was evident that "the laws of the land "relating to railways should be the same to whomsoever those railways "belonged, and the law which governed companies' lines must also govern "the railways of the State." This was acted on recently in the year 1896 in the matter of the repeal of the 81st section of the Railways Act of 1890, and in other cases of competition between State and other railwaays or carriers.

19. That your Memorialists feel that these principles are applicable to the situation created by the present proposals, and that your Excellency will hesitate to allow the competition of the State Bank in the exchange market after forty years interval, during which your Memorialists have utilised their capital in India and have built up their business, which after all (despite inevitable risks incurred) is not one in which large profits have or can be made, and that if your Excellency permits the concession asked for by the Presidency Banks, namely, access to the London market, your Excellency will not grant it except on such terms as will preclude what is practically State competition with existing enterprises.

20. Your Memorialists beg also to draw your Excellency's attention to a paragraph in the statement of Mr. A. de Rothschild before the Currency Commission* (at p. 186 of the report), in which he proposes the establishment of a State Bank of India, and which paragraph is as follows:

"The Bank should not conduct any exchange transactions, but should confine itself (like the existing Presidency Banks) exclusively to internal operations, and it would also, when necessary, make advances to the Indian Government against deficiency bills, which is frequently the case with the Bank of England."

21. That your Memorialists would on this point suggest that, as the amalgamated banks are, or the new bank is, to have a sterling capital, it

* C. 9222.

should be made a condition of such permission that all their sterling transactions should be confined to the shipment and re-shipment of gold, and that the Presidency Banks or new bank should be prohibited from selling or buying sterling bills or selling or buying telegraphic transfers save, of course, through existing channels, namely, the Exchange Banks.

22. Your Memorialists have set out their views and apprehensions at some length on the matter which is of supreme importance as well to the country at large as to your Memorialists, but they quite appreciate that the Financial Member of your Excellency's Council evidently shares Mr. A. de Rothschild's view that the proposed bank should not deal in exchange in competition with your Memorialists, but what they fear is that unless the restrictions proposed by them, or some others equally stringent be imposed, the result of the access to the London market will incidentally but inevitably be an amount of dealing in exchange which will dislocate your Memorialists' operations and produce serious, if not overwhelming, competition without any benefit to the country, but the reverse, and that it will, as pointed out in the article in the "Money Market Review" hereto appended, check rather than stimulate the flow of loanable sterling capital from England to India.

23. Your Memorialists appeal to your Excellency in this matter with confidence in your Excellency's anxiety to stimulate the introduction of sterling capital into India by private enterprise and to protect it when introduced, and they leave their case in your Excellency's hands in full confidence that it will at least be dealt with as considerately and fairly as if their interests were represented in your Excellency's Council.

Your Memorialists pray that the foregoing representations may be taken into careful consideration before any legislation be initiated on the subject-matter of the proposals to amalgamate the existing Presidency Banks or to establish a new bank on a sterling basis, and that any Bill that may be framed and passed for the purpose of giving legislative effect to such proposals may contain effectively stringent provisions preventing the amalgamated banks or the new bank from competing with the Exchange Banks as and in manner indicated in this memorial.

(Signed.)
For the National Bank of India, Ltd.,
W. TOUCH, Manager.
For the Delhi and London Bank, Ltd.,
GEO. WARD, Manager.
For the Mercantile Bank of India, Ltd.,
H. G. FIDLER, Manager, Calcutta.
For the Comptoir National D'Escompte de Paris,
E. FREYVOGEL, Manager.
For the Chartered Bank of India, Australia and China,
J. B. LEE, Agent.
For the Agra Bank, Limited,
F. G. MAYNE, Manager, Calcutta.
For the Hongkong and Shanghai Banking Corporation,
P. E. CAMERON, Agent.
Deutsch Asiatische Bank,
JAUP p. p. GUTSCHKE.

Dated Calcutta, the third day of February 1900.

# APPENDIX A.

## Proposed Indian State Bank.

It was known at the time the Government of India were preparing to place the currency of our great Eastern dependency on a gold basis, that they entertained the idea of supplementing and fortifying that scheme by the establishment of a State Bank. A good deal of attention was devoted to this subject during the sittings of the Currency Committee, and more recently the Government were known to have been sounding Indian merchants and others for the purpose of ascertaining what degree of support a plan of the kind was likely to receive. A short time ago a communication on the subject was addressed to the Bengal Chamber of Commerce, and the latter indicated by their reply that they are wholly in favour of the founding of a State Bank. In their view, it is possible that if the proposed bank were entrusted, like the Bank of England and the banks of other European countries, with the management of the paper currency, subject, of course, to all the regulations which might be considered essential for the protection of the public, the note issue would expand to the great convenience of commerce. They are of opinion that the banking system in India will never be entirely satisfactory until the central banking institutions, in other words, the Presidency Banks, are in close touch with London, the money market of the world. Consequently, they trust that the efforts to improve the banking facilities in India will result in the central banking institution and other banks being placed in a position to give important assistance to the promotion of railways and other works of public importance and to finance at moderate rates, and on terms as free as possible from heavy fluctuations, operations of industrial and other trading concerns, thus placing the country in a more advantageous position in the future than in the past to compete with the great commercial nations of the world.

From all this the inference to be drawn is, firstly, that the existing banking system is regarded as inadequate; secondly, that if it were extended, more abundant and cheaper capital would be forthcoming; and, thirdly, that to accomplish this desirable purpose the intervention of a sort of State monopoly of at least one branch of banking is necessary. To all of these conclusions we are strongly inclined to demur. As regards the statement that the note issue would expand greatly to the convenience of the public, the Government have on all occasions since the closing of the mints replied to the opponents of that measure, when alleging that it led to a restriction of the currency, excessive rates of interest, and the disorganisation of trade, that there was no such restriction.

They have consistently maintained that there was sufficient currency for all purposes. Now, however, when it is a question of setting up a State Bank, the great argument in its favour is that the currency requires some new kind of machinery to facilitate its expansion. At the present time the Government alone issue notes through the Treasury, the total being between twenty-seven and thirty crores of rupees, against cash and Government securities. It is proposed to transfer this right to the new bank which is to be constituted by the amalgamation of the three Presidency Banks, which would, therefore, reap the profit, about twenty-five lakhs of rupees per annum, which the Treasury now obtains on its note issues. That, of course, would benefit the bank to the disadvantage of the Indian taxpayers. It is also proposed that the combined capitals of the Presidency Banks in their amalgamated shape should be increased by about eight millions sterling. It is not quite clear where this money is to come from, but we can quite appreciate the ardent desire to see it imported into the country in order to confer more solidity on the currency reform.

We wholly fail to see how this scheme will stimulate industrial, commercial, and railway enterprises, the development of which must be dependent on foreign capital. The suggestion that it will do so obviously assumes that such development has been checked for want of adequate banking facilities, but we doubt if any close and intelligent student of the economic and financial history of India during the last 30 years or so will

be able to accept such a view. What we do know, is that capital not only ceased to flow to India in late years, but was extensively withdrawn, not for want of such facilities, but owing to the depreciation of the currency and the violent fluctuations in the exchange. So long as the exchange remained stable money flowed into India freely enough, and we do not doubt that the same will occur again when people in this country become convinced that the era of such fluctuations has finally passed away. The sense of security imparted by such a conviction will not require to be supplemented and strengthened by the establishment of a State Bank which is to cheapen capital. Indeed, by bringing about such cheapness, to an undue extent that is, one of the main forces for attracting capital to India will be greatly enfeebled. Money goes out to the East because it finds more remunerative employment there than it does at home, and if the flow is to be utilised, in co-operation with the State Bank, to force down the rates, it will quickly be arrested.

What has, for some years past, been wanted in India is, as already mentioned, a steady exchange, not a new bank run on Government lines, with all their peculiar pettifogging restrictions and redtapeism. There is no reason to believe that a State Bank formed out of the materials furnished by the Presidency Banks would be engaged in a different or less circumscribed class of business than that now carried on by them. The great mass of the Indian trade would still have to be financed by the Exchange and other banks which are in closer touch with it than the Presidency institutions ever have been or are likely to be. In his evidence before the Indian Currency Committee, Lord Rothschild, in referring to this subject, said that "a Government Bank would know that they were under the "necessity of redeeming their notes in gold or silver, and they would "keep the money market easy. In fact, the bank would never have "allowed the stringency in the money market to arise, as it did the other "day in India (the rate was then about 13 per cent.) because they thought "they could not cover their notes." In the then situation of affairs the bank would have had no sort of power to prevent the stringency. To suppose it could do so is to assume that it would be able to overcome the combined influence of famine, plague, reduced exports, diminished revenue payments into the Treasury, and the locking up of cash by the Government. So far as rates for money were concerned they afforded every inducement so send out capital from this side for employment on remunerative terms, whereby the stringency would have been relieved in a normal manner; but it did not go out freely, for the simple reason that there was a widespread distrust of the future movements in the exchange. Indeed, look at the subject in whatever way we may, we always come round to this point. It is bound to be the prime factor which will determine the ebb and flow of capital between India and the home market. A State Bank can do nothing to help it. State Banks never have done anything in this direction. The development of national enterprises is a matter dependent on private initiative, banking and other. If we had to wait for the Bank of England to help the building of our railways, the opening of our mines, and the setting up and running of our ironworks and cotton mills, &c., our industrial position would to-day be vastly different from what it is. The capital that may be wanted in India will find its way there, as it has done heretofore when the times and general conditions are regarded as propitious by the people who have it to lend. Their ambition to launch out will not be fired by the mere fact that the Presidency Banks are to become one, and their resources enlarged, the carrying on of their business subjected to Government control, and the sole right to issue notes transferred to them.

Dated 6th February 1900.

From the Honourable MR. G. G. ARBUTHNOT, Chairman, Chamber of Commerce, Madras, to the Secretary to the Government of India, Finance and Commerce Department.

This Chamber has recently had under its consideration the proposal made by the Bank of Bengal that loans should be made available to the Presidency Banks from the Currency Reserve, in times of stringency, when the funds available in the Reserve Treasuries are insufficient to admit of loans being made from that source ; and I have the honour to submit the following remarks thereon for the consideration of Government.

The proposal is based upon the German system of issuing uncovered notes, but the conditions here appear to the Chamber to be somewhat different from those on the Continent of Europe for, whereas in Germany the notes themselves circulate freely, in India loans made from the Currency Reserve would have to be met for the most part in silver, and it would, therefore, be essential to maintain in the Currency Reserve a sufficiently large proportion of rupees.

The Chamber observes from the published returns that on the 15th January 1900 the coin and bullion reserve was made up as follows :—

| | Rs. |
|---|---|
| In Gold - - - - - | 9,38,00,000. |
| ,, Silver - - - - - | 7,29,00,000 |
| Total - - | 16,67,00,000 |

and it seems doubtful whether Rupee loans could be made available from the Reserve under such circumstances.

The Chamber thinks, however, that the question of coining fresh Rupees is a matter which urgently requires the consideration of Government. The recent action of the Secretary of State in curtailing the sale of Telegraphic Transfers on India against gold deposited in London, under Act II of 1898, can be understood only on the assumption that it was necessary owing to the insufficient supply of Rupees in the Reserves on this side ; and there have been other indications during the past few months pointing to a deficiency in the supply.

The Honourable Mr. Dawkins, in his speech at the meeting of the Viceregal Legislative Council on the 5th ultimo, objected to the grant of loans to the Presidency Banks from the Currency Reserve, and expressed the opinion that if the proportion of coin to securities in the Reserve is large enough to allow of loans being made. then that proportion is unnecessarily large, and securities should be substituted for superfluous coin, so that the general tax-payer, and not any particular section of the tax-payers, such as the banks, should benefit thereby.

The Chamber thinks that such loans would be made more in the interests of the trade of the country generally (which, it submits, is identical with that of the tax-payer) than for the benefit of the Banks, who would pay interest at the market rate for any accommodation received in this way ; and moreover, such interest would be applied for the benefit of the general tax-payer.

The Chamber, therefore, is of opinion that this additional channel for relieving monetary pressure should be made available, but it is strengthened in its previously expressed conviction that the ultimate resort for monetary relief must be the London Money Market, and it takes this opportunity of again urging upon Government the necessity for an early amendment of the Presidency Banks Act to accomplish this much-needed reform.

In conclusion, the Chamber would remark that, in its opinion, the question of giving the Presidency Banks access to London is one which should be considered on its own merits, apart from the larger scheme for amalgamation of the banks, which it understands is now receiving the

consideration of Government. It is of the utmost importance to the trade of India that it should be brought into touch with the London Money Market; and this can be accomplished as effectively by means of the existing Banks as through the medium of one united Bank.

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No. 769, dated 13th February 1900.

From The Honourable Mr. J. W. P. MUIR-MACKENZIE, I.C.S., Secretary to the Government of Bombay, Financial Department, to the SECRETARY to the Government of India, Finance and Commerce Department.

I am directed to reply to Mr. Assistant Secretary Heseltine's letter, No. 5124-A., of the 10th November last, in which the Government of Bombay are requested to express their views regarding the proposed relaxation of certain restrictions upon the business of the Presidency Banks.

I am to say that this Government have consulted the Board of Directors of the Bank of Bombay, the Accountant-General at this Presidency and several other officers. The reply of the Board of Directors was forwarded to you with letter from this Government, No. 432 of the 23rd ultimo, and I am now to forward also copy of the report of the Accountant-General.

2. The questions involved in the proposal under discussion are matters of grave difficulty and complexity, and have received from His Excellency the Governor in Council the earnest consideration which issues of such importance demand. As at present advised, His Excellency in Council finds himself to a great extent in agreement with the attitude adopted by the Honourable Mr. Dawkins in his speech in the Meeting of the Council of the Governor General of India on the 5th ultimo (*see* page 394).

3. There are two points on which opinion is unanimous, namely, (1) that the severe fluctuations in the rate of discount to which the trade is subjected are due to an insufficiency of loanable capital in the busy season, and (2) that the deficiency can be most satisfactorily met by granting to some bank or banks access to the London market. These views are fully shared by the members of this Government, who, moreover, agree as at present advised in thinking that the most satisfactory method of providing such access would be through the agency of a Central Banking Institution constituted by amalgamation of the three Presidency Banks. On this question, however, His Excellency in Council has not been requested to express an opinion and in default of information on the various points enumerated in paragraph 4 of the letter dated December 20th, 1899, from the Chamber of Commerce of Bombay, is not in a position to form a definite judgment. The proposal is, however, undoubtedly attractive, and provided the confidence of the mercantile community can be secured, merits the most assiduous elaboration. If the head office of such a bank and its board were in London, and control were there exercised over the operations of what would then be the three Indian Branches, the fears now entertained that the interests of one Presidency might be sacrificed to those of another would probably be dispelled.

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No. 2265–R., dated 16th December 1899.

From the ACCOUNTANT-GENERAL, Bombay, to the SECRETARY to the Government of Bombay, Financial Department.

With reference to Government Resolution, Financial Department, No. 5598, dated 23rd November 1899, forwarding for my opinion a reference from the Government of India, Financial Department, on the subject of relaxing certain restrictions upon the powers of the Presidency Banks with special reference to the existing capital of the banks, and explaining (in enclosures) the attitude which the Government of India are inclined to adopt, I have the honour to offer the following remarks.

2. The question of relaxing the restrictions upon the powers of the banks is so intimately connected with that of enlarging their capital that the former question cannot, I think, be conveniently discussed independently of the latter. The extent to which the banks are in the busy seasons dependent upon the Government balances has been pointed out by the Honourable Mr. Dawkins in his speech before the Viceroy's Council on the 1st September last, and His Excellency the Viceroy has indicated in his speech on the same occasion that it is not the intention to provide a field for the employment of Government balances by enlarging the sphere of the banks' operations.

That little room exists for the extended employment of the present resources of the Presidency Banks at all events in the busy season seems to me sufficiently indicated by the high rates of discount which usually prevail in the cold weather months, and the prevailing rates of discount then and indeed for a large portion of the year are also in my opinion such as to raise doubts as to the sufficiency of the Banks' capitals to meet the existing requirements of trade. I am aware that it has been and is urged in some quarters that the abnormal stringency which characterised the busy season of certain recent years was chiefly a result of the currency policy of Government, and that a marked diminution of that stringency has followed the introduction of the reform enacted in the Indian Paper Currency Act, 1898; but however much it may be admitted that the stringency of the market may have been added to by the policy adopted by Government for fixing the value of the rupee it can hardly be denied that, quite apart from that policy and long before that policy had effect, the rates of discount prevailing in this country in the busy season have been over and over again unduly high, and compared with the rates prevalent in the slack season have shown fluctuations which, I would suggest, could hardly occur in a thoroughly healthy market. I have only as an instance of this to refer to the beginning of 1889 when the Bank rate in Bombay stood at 11 per cent. and the bank was refusing advances upon the security of Government paper. This is not an isolated instance, *e.g.*, the Bank rate varied in 1890 from 3 to 12 per cent. and in 1894 from 3 to 10 per cent., nor have the Presidency Bank and the Chamber of Commerce of this city failed on various occasions to urge upon Government the policy of utilising its own balances by employing them in the assistance of trade. These circumstances recurring as they do from time to time seem to me to indicate a paucity of capital which an increase in the capital of the existing Presidency Banks would presumably go some way to supply, and were that capital judiciously increased to an extent commensurate with what I would call the evils which it would be desirable to remedy, one of the chief objections to withdrawing existing restrictions over the employment of their capital would, if it did not altogether disappear, be largely minimised. Perhaps even then some restrictions will be necessary, but I see no reason why the powers of the Banks in respect of business transactions should not be greatly enlarged and particularly in the direction of an extension of the classes of securities upon which loans and advances are admissible; but how far it would be possible to go in this direction, if existing arrangements are continued, is a question, upon which I do not feel competent at present to offer an opinion without further data regarding the securities which the banks would propose to deal with. In making the above remarks I have not lost sight of the fact that it may be argued that having, as the existing Banks do have, the power to increase their capital, the very fact that they do not

take that step is sufficient proof that an enlarged capital is not called for by the requirements of trade; but, without in any way reflecting on the devotion to the public interests of the Presidency Banks, which has, I believe, always been manifest, it is, I suggest, only fair to recall the fact that they are not constituted solely for the benefit of trade but are dividend earning institutions, and the interests of their shareholders must necessarily be carefully safeguarded. Looked at in another light I may further question whether other considerations do not appear to point to the same conclusion that the capital of the existing Central Institutions is capable of extension. The removal of the uncertainty regarding the value of the currency will, it is rightly regarded, result in an increased rush of capital to this country; increased facilities will thereby be given to trade, and it seems, I would suggest, a reasonable view that, to meet the requirement of that increased trade, the market should be able to look for increase resources to the Central Institutions.

Whether the increase in resources and consequent usefulness can best be met by an amalgamation of the existing banks into one Central Bank or by going still further and placing the latter bank upon a sterling basis, are questions of great difficulty upon which I express an opinion with great diffidence, but I incline to the view that one Central Institution for the whole of India with a sterling capital and having the management of the issue of Paper Currency would be in many respects exceedingly advantageous and a considerable improvement on existing arrangements, while, assuming that it proves under present conditions possible to establish such an institution, I am unable to see any weighty objections to its creation. The two arguments which, I conceive, may be urged against the adoption of such a proposal are (*a*) that it is unnecessary, and (*b*) that the difficulties in the way of its establishment are so great as to render it impracticable. With regard to (*a*), I have urged above the reasons which seem to point to the necessity of some change, and as to the advantage which a Bank on a sterling basis would afford, I would refer to the evidence given by Mr. A. de Rothschild before the Indian Currency Committee and state that, while I consider that there can be no real doubt as to the maintenance of the value of the rupee under the present system, and I doubt whether the introduction of a bank of this nature will add largely to the resources available for such a purpose (*see* also Lord Rothschild's remarks on this point before the Currency Committee No. 7683), I think that in practice the bank would have a great advantage over Government in working for the effective maintenance of a gold currency through its more intimate knowledge of the immediate requirements of commerce, and especially through the confidence that its existence and operations would eventually engender in the mercantile world. A further advantage which such a bank would possess would be the possession of capital which could be utilised in England as well as in India. With regard to (*b*), the difficulties to be expected in the establishment of such a bank. These are, I am of opinion, great; perhaps much greater than has been apprehended. I will not say that I think they are insuperable, but at all events they can only be threshed out in detail in immediate conference with the banking and mercantile community, and I submit that the real point for discussion in the first place is the desirability of the changes suggested. If that be admitted, it will then be time to consider the possibility of overcoming initial difficulties. I would add, in conclusion, that I am aware that in answer to the arguments in the earlier portion of this letter it may be further urged that there has been no demand on the part of those who might be deemed the most nearly interested, namely, the mercantile public, for increased banking facilities, but I think that this is largely due to the apprehensions which any large change of this kind always arouses, the tendency being, I think, to accept an existing system in preference to a large and important change the benefits of which may not be very clearly apprehended. Mr. de Rothschild has also alluded in his evidence referred to above to the opposition which such a scheme might arouse, and I need refer no further to that point except to express my concurrence with what he said.

No. 146, dated 15th February 1900.

From the CHIEF SECRETARY to the Government, Financial Department, Madras, to the SECRETARY to the Government of India, Finance and Commerce Department.

I am directed to reply to your letter No. 5124-A., dated the 10th November 1899, inviting the views of this Government on the proposal to relax the restrictions on the business of the Presidency Banks which are imposed by Sections 36 and 37 of the Presidency Banks Act, 1876.

2. It is observed that the Government of India holds that the present restrictions imposed on the banks' operations are necessary, principally in order to secure the safety of the Government balances entrusted to the banks; that Presidency Banks depend to a quite exceptional degree for their cash balances on the Government account, nearly 80 to 90 *per cent.* of these balances being in the busy season supplied from this source; and that this fact, added to the fluctuations in the rate of discount, leads to the question as to how far the Presidency Banks have sufficient capital to allow of the absorption of the resources they command in enterprises, the securities of which might not be easily realisable.

3. In the letter addressed to the Government of India on the 13th November last by the Bank of Madras, which appears to have anticipated the present reference, it is contended that the views of the Government of India in regard to the amount of the Government balance with the bank relatively to other deposits and to the cash balance are founded on a misapprehension, and that, though these remarks might apply to the period prior to the establishment of Reserve Treasuries, they are inapplicable now; since with the largely increased resources of the Madras Bank the Government account now forms only about 10 per cent. of the working capital. The bank accordingly contends that it is not dependent in an undue degree upon the Government balance for its loanable capital and adduces figures to support this contention. If the arguments of the bank are to be accepted, it would appear that the pecuniary interest of Government in the Presidency Banks no longer exists, at all events in Madras, to the same extent as formerly; and, if so, the chief obstacle to relaxing the restrictions originally imposed on the bank's operations has, in some measure, been removed. I am to observe that this aspect of the matter has been commented on by the Honourable Mr. Dawkins at the meeting of the Legislative Council on the 6th January.

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9. The Bank of Madras in its letter to Government of India has made the following further suggestions:—

(1) that the Bank's power of borrowing should be extended by amending Section 36 (*mm*) of Act XI. of 1876, so as to allow of borrowing in the United Kingdom;

(2) that Ceylon Goverment securities should be added to the list of those in which the Bank is authorised to deal;

(3) that Section 37 (*a*) of the Banks Act should be so amended as to extend from three to six months the period for which loans may be made;

(4) that Section 37 (*f*) should be amended so that the limit for overdrafts without security may be raised from Rs. 2,000 to Rs. 5,000.

10. With respect to the first of the suggestions, I am to say that it has been dealt with by the Honourable Mr. Dawkins in his speech already referred to in which he stated that the fusion of the three Presidency Banks and an increase of their capital are conditions inevitably precedent to the grant of access to the London market. In the absence of expert banking opinion which is not here available, this Government, however, concurs with the Accountant-General—a copy of whose report is herewith forwarded—in questioning the advisability of proposals (2) and (4), and sees no reason for supporting suggestion (3), which would involve a loss of revenue.

No. Res.-Conf. 18, dated 7th December 1899.

From the ACCOUNTANT-GENERAL, Madras, to the CHIEF SECRETARY to the Government of Madras, Financial Department.

I have the honour to acknowledge receipt of your endorsement No. 3019, dated 21st ultimo, forwarding to me for remarks Government of India, Finance and Commerce Department, No. 5124–A., dated 10th November 1899, regarding proposals to relax the restrictions on the business of the Presidency Banks which are imposed by Sections 36 and 37 of the Presidency Banks Act of 1876.

2. In connection with this question the Government have received copies of a letter addressed by the Bank of Madras to the Government of India on the subject. The letter expresses the view of the Bank of Madras and brings to notice the changes the bank considers desirable in its own interest. It will be most appropriate therefore to discuss the points brought forward in it.

3. The Directors first advocate that the bank's power of borrowing should be extended to allow of their borrowing in the United Kingdom. When exchange was altogether uncertain, it was manifestly undesirable that such an element of speculation should be brought into any of the transactions with which the Presidency Banks had to deal, and the prohibition to borrow in England was essential. Now, however, that exchange is stable this objection no longer exists, and I see no reason why the banks should not be allowed to borrow in England. In fact, it seems to me most desirable that they should be allowed to do so. There can be no question that their business operations are very much restricted by the prohibition, and that a larger command of funds would be of great advantage to the trade and commerce of the country, and materially strengthen the position of the banks and enable them more to assume that position which some consider can only be taken up by a "Bank of India." Were the Presidency Banks allowed to borrow in England, the scarcity of monetary accommodation in the busy season and the consequent high rate of interest of which we have known so much the last few seasons would not occur.

It would also solve the question of the banks making use of the surplus funds of the Government during periods of stringency which must no doubt be allowed as things are at present, but which it would be much better should not be necessary.

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6. The suggestion of the bank that the period for which loans may be made should be raised from three to six months seems reasonable, but I do not think the limit of over-drafts without security should be raised.

7. I am not aware of the conditions on which the securities of the Ceylon Government are issued, but it does not seem desirable that a Presidency Bank in India should be allowed to deal in the securities of Governments beyond Indian limits.

Despatch from the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA, No. 41, dated 22nd March 1900.

MY LORD,

With your Excellency's letter, dated the 22nd of February, No. 56, you have transmitted for my consideration a memorial by the Exchange Banks of Calcutta, on the subject of the proposals connected with the suggested amalgamation of the three Presidency Banks into one Bank with certain special privileges.

2. As I have, in my despatch dated this day, No. 40, referred the question again to your Government, it is unnecessary for me at present to discuss the effect of the proposal on the Exchange Banks.

3. I request, however, that they may be assured that their representations will receive due consideration before any decision is passed by Her Majesty's Government.

I have, &c.,
(Signed) GEORGE HAMILTON.

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No. 1782-F., dated 8th March, 1900.

From E. N. BAKER, Esq., Secretary to the Government of Bengal, to the SECRETARY to the Government of India, Finance and Commerce Department.

I am directed to acknowledge the receipt of your letter No. 5124-A., dated the 10th November 1899, asking to be favoured with the views of the Government of Bengal on a proposal which has been made to relax the restrictions on the business of the Presidency Banks which are imposed by Sections 36 and 37 of the Presidency Banks Act of 1876.

2. The questions dealt with in the papers which accompany your letter under reply relate to a branch of administration which has been highly specialised, and lie so far outside the ordinary sphere of the Local Government that the Lieutenant-Governor feels some diffidence in offering an opinion regarding them. Moreover, since the receipt of the reference from the Government of India, the matter has been carried a good deal further by the statement made in Council, on the 5th January 1900, by the Finance Minister in reply to a question put by the Honourable Mr. Allan Arthur. For these reasons, the Lieutenant-Governor feels that no useful purpose would be served by attempting to enter on an exhaustive examination of the proposals set forth in the correspondence, and he desires merely to submit some observations on their simpler aspects based on such advice and information as were within his reach.

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6. The next question considered in the papers received with your letter of the 10th November relates to the proposed amalgamation of the three Presidency Banks, and the increase of their capital. This is a question of much greater difficulty than the first, and requires for its solution more familiarity with the practice of banking administration than the Lieutenant-Governor possesses. So far as amalgamation is concerned, the Lieutenant-Governor accepts the force of the arguments adduced in favour of it in the speeches of the Honourable Mr. Dawkins and His Excellency the Viceroy on the 1st September 1899.* But there are also considerations of no little weight in favour of the opposite view. In the first place, it is doubtful whether India is not too large for a single Central State Bank; the Directors, if drawn from or located in the three Presidency towns, would be too far apart from each other. Secondly, the interests of the various Presidencies are not always identical, and are sometimes at variance with each other. Thirdly, it is against the public interest to create and foster a huge monopoly. A single bank with large resources, and commanding the Government deposits, would have great power over the other banks. Fourthly, banks deal chiefly in credit, and credit is always a matter of local knowledge and experience.

* *See* pp. 358–61, *supra*.

It is doubtful also whether the Central Bank would be in a position to do all that appears likely to be expected of it. The Government of India have of course seen an article in the *Economist* of the 13th January, entitled "The proposed Bank of India," in which it is pointed out that even the Bank of England does not undertake to pay at any branch its notes issued by other branches. Notes issued at one branch are cashed only at that branch and in London; and it is contended with much force that a liability, which the Bank of England cannot undertake and has strongly objected to, could not safely be imposed on the State Bank of India.

For these reasons the Lieutenant-Governor is disposed to doubt whether it is expedient or even safe to amalgamate the Presidency Banks, and there appears to be a growing opinion adverse to the proposal among the mercantile community.

These are not matters in which his own experiences enable him to form and offer any confident opinion, but at least he may say that it seems to him clear that the head-quarters and management of the amalgamated bank should be in India, and not in London.

If the management were located in London, it would necessarily be in less perfect touch with local requirements and less accessible to the representatives of local interests than if it were in India, and it might, moreover, be subjected to influences in which the interests of India were not the sole consideration.

7. As regards the suggestion that the capital of the amalgamated bank should be increased, the Lieutenant-Governor is *primâ facie* disposed to doubt whether the necessity for this has been established. The capital of the three Presidency Banks is fixed by Section 10 of the Act. Their aggregate capital now stands at 360 lakhs of rupees, which is only 10 lakhs in excess of the minimum allowed by the law, and they have power under section 12 to raise it to an aggregate of 620 lakhs. The fact that notwithstanding recurring periods of stringency, the banks have never yet exercised this power except to an inconsiderable extent, and have preferred to retain their capital almost at the permissible minimum, raises a presumption that that minimum is not conspicuously inadequate to their needs. Until the maximum allowed by the present law has been worked up to, it seems difficult to believe that a still higher amount could be usefully employed. In any case, if it is thought desirable to provide for some increase, the power should be permissive, and not obligatory.

It should also be borne in mind that in proportion as fixity of sterling exchange is secured—and in this a large measure of success has been achieved—the narrower is the field left for the operations of the Exchange Banks; and it is reasonable to suppose that as time goes on, a larger and larger proportion of their capital will be set free for employment in legitimate banking.

8. There remains only one point in respect of which the Lieutenant-Governor desires to offer any remarks. This relates to the suggestions that have been made for providing some means whereby the Banks' resources may be temporarily increased during periods of stringency. The Honourable Mr. Dawkins in his statement in Council on the 5th January pointed out that the German system by which the banks are allowed to issue uncovered notes on payment of a sliding-scale tax would not afford a remedy in this country, where the demand is for hard cash and not for notes. The Lieutenant-Governor ventures to doubt whether too much may not be made of this objection. Whatever the system of note issue may be, whether by Government direct or through the agency of a bank, it must be assumed that at any given moment the note circulation has reached saturation point, *i.e.*, that as large an amount of notes has been absorbed as, in the circumstances of the issue system in force, the country will take up. This is true of Germany and of India alike. Nevertheless it is found in Germany that in seasons of stringency the bank is able to satisfy pressing demands by the issue of notes, which do circulate for a time, and are not immediately presented for encashment. It is difficult to understand why the same result

should not be expected to ensue in this country also though possibly to a less extent. The Lieutenant-Governor is disposed to believe that this course, if not a remedy, would be at least a palliative for monetary stringency.

9. It is of course true that this system is scarcely to be distinguished in practice from the granting of loans from the Paper Currency reserve, the objections to which were forcibly set forth by the Finance Minister in the course of his statement.

10. Another suggestion has presented itself, which seems to the Lieutenant-Governor to be quite deserving of consideration. It is that the Government should coin rupees up to an amount to be decided upon, and hold them in a special loan reserve, lending them to the banks for short terms on a sliding scale of interest, whose minimum should be fixed with reference to the current bank rate of discount. It does not seem that this arrangement would interfere with the sale of Council Bills or the deposit of gold, and it is probable that the sliding scale could be so adjusted that the interest received would more than cover the interest on the cost of the silver from which the rupees were coined. The precise amount at which the special loan reserve should be fixed and the scale of interest would be matters for consideration.

11. To reduce the cost of locking up so many rupees in the special loan reserve, it might be desirable during the slack season to invest the whole or a portion of them in consols or any other first class securities, preferably in sterling. On the approach of the busy season, these should be sold for gold, the proceeds being paid into the Treasury Department of the India Office, and a corresponding number of rupees being transferred to the special loan reserve in India. It is possible that in course of time, if this system proved successful in steadying the bank rate, the special loan reserve might be amalgamated with the Reserve Treasury, the cash in which up to a fixed amount should be treated as reserve, while the excess should be available for special loan purposes in the manner described.

It is possible that this arrangement may embody defects which would render it unacceptable; but none such have been brought to the Lieutenant-Governor's notice, and he, therefore, desires to submit it for the consideration of the Government of India.

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Dated 14th March 1900.

From A. D. WARREN, Esq., Secretary, Chamber of Commerce, Rangoon, to the SECRETARY to the Government of India, Finance and Commerce Department.

I am directed to acknowledge receipt of your letter No. 5123-A., dated 10th November 1899, with relative document, regarding the proposed amendment of the Presidency Banks Act, 1876.

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Whether the addition to the resources of the banks should take the form of increased shareholders' capital, or otherwise, my Committee are not in a position to express an opinion.

A suggestion has been made that the Government balances should, in times of stringency, be placed more liberally at the disposal of the Presidency Banks.

I am desired to say that if this could be done, it would meet with the approval of the Committee.

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No. 40-Finl., dated London, the 22nd March 1900.

From the SECRETARY OF STATE for India to the GOVERNMENT of India.

Your Excellency's letter, dated the 18th January, No. 17, has been under my consideration in Council, and the proposals which it contains for placing the banking system in India on a better footing so as to enable the community to have the command, at a time of emergency, of a larger amount of loanable capital, will receive my most careful attention.

I have already, in my despatch of the 25th of July 1899, No. 140, expressed my sense of the great importance of this subject, and I fully appreciate the desirability of the objects which Your Excellency has in view. Your letter shows that the matter has received from your Government the special consideration which it deserves, and undoubtedly marks an important step towards such measures of reform as may hereafter be adopted.

There are circumstances, however, at the present time, which prevent my coming to an early decision on the proposals now submitted to me; and in the meantime I should be glad to receive from your Government further observations on the following questions which occur to me as especially needing examination and discussion:—

(i) What probability is there that there will be throughout the year a field in India for the remunerative employment of the additional share capital which it is proposed to raise?

(ii) If funds are temporarily borrowed in England, how would they be remitted to India in such a manner as to form an addition to the amount available in India under existing conditions?

(iii) If they would have to be brought back again in the slack season, what would be the effect on the Secretary of State's remittances?

(iv) Is it advisable to allow a bank which has the command of the Government balances to employ its deposits out of India, and to incur liabilities by borrowing abroad?

(v) Is it likely that the possible conflict of interests between a bank of this description and other existing institutions might tend to discourage private enterprise and to prevent the development of the facilities which the public now enjoys?

(vi) Is it prudent for the Government to pledge itself to place all its balances in the Presidency Towns in the hands of a bank?

(vii) Is it desirable to entrust to a bank the management of the Paper Currency, due regard being had to the principles upon which it was established in 1862?

It will be understood that I express at present no opinion upon any of these points, but merely desire to have such observations on them as may occur to you.

I regret the impossibility of arriving at a conclusion on this subject, in time to allow a statement of your intentions to be made during the discussion of the Financial Statement, on which occasion the banking and mercantile community might not unreasonably expect to be informed of the result of Your Excellency's inquiries and deliberations.

No. 199, dated Simla, the 13th June 1901.

From the GOVERNMENT of India, Finance and Commerce Department, to the SECRETARY OF STATE for India.

We have the honour to refer to your Lordship's despatch No. 40-Financial, dated the 22nd March 1900, regarding our proposals for placing the banking system in India on a better footing by means of the establishment of a Central Bank. We delayed our reply to that despatch until the Honourable Sir Edward Law should have gained some experience of the working of the Indian banks and the commercial conditions of this country. Our Honourable Colleague has now had an opportunity of discussing the question with Directors and Managers of the three Presidency Banks, and also with representatives of the Exchange Banks and leading merchants, and under his advice we proceed to give the following categorical answers to the questions asked by Your Lordship.

2. *Question I.—What probability is there that there will be throughout the year a field in India for the remunerative employment of the additional share capital which it is proposed to raise?*

It would appear that there is no probability of remunerative employment being found *throughout the year* for any appreciable addition to the share capital held by the banks.

3. *Question II.—If funds are temporarily borrowed in England, how would they be remitted to India in such a manner as to form an addition to the amount available in India under existing conditions?*

If funds are temporarily borrowed in England, they would be remitted to India in one or other of the following ways:—(1) by purchase of Council or Currency Bills, or Telegraphic Transfers, if such were available at profitable rates; (2) by exporting gold from London, which would be presented in India at the mints or treasuries for conversion into rupees; (3) possibly, to a limited extent, Exchange Banks might remit by means of London drafts payable in rupees in India; (4) to an equally limited extent, and under special circumstances only, Indian Government paper bought in England might be enfaced for payment in India and there sold for rupees. The last method is an unlikely one, as when capital is required in India, there would be little or none available for investment.

4. *Question III.—If funds have to be brought back again in the slack season what would be the effect on the Secretary of State's remittances?*

It must be admitted that under all circumstances remittance back to England of funds borrowed there would have the effect of reducing the rates of Council Bills. This reduction would not be counterbalanced by the rise in rates caused by remittances of borrowed funds from England to India, because these remittances would take place in the busy season when Council Bills are already high and could not rise much further without touching specie point. The general effect of permitting the banks to borrow in England would probably be to lower the average demand for Council Bills for the year.

5. *Question IV.—Is it advisable to allow a bank which has the command of the Government balances to employ its deposits out of India, and to incur liabilities by borrowing abroad?*

We see no objection to allowing the Presidency Banks to employ their deposits in the slack season on temporary loans out of India and to incur liabilities within defined limits by borrowing abroad. The dangers which might arise from such borrowing are of two kinds:—

(1) The bank when repaying might be a loser by exchange. We think that this danger is hardly likely to arise to such an extent as to seriously affect the interests of Government.

(2) The borrowing bank might be obliged to denude itself of resources for the purpose of meeting heavy payments at a fixed rate abroad. Any possible danger to Government could, however, be provided against by making it a condition of continuing the Government deposits with the bank, that the bank should undertake to hold a fixed minimum proportion of cash to liabilities.

Such a condition would also provide against the danger that the bank might, by lending abroad, lock up too much of its capital out of India.

6. *Question V.—Is it likely that the possible conflict of interests between a bank of this description and other existing institutions might tend to discourage private enterprise, and to prevent the development of the facilities which the public now enjoys?*

We think it is evident that, if a Central Bank were obliged to hold more capital than it could profitably employ throughout the year in ordinary business, such a bank would be obliged to enter into prejudicial competition with private banks; and further, the existence of such surplus capital in India might check the outward flow of capital from private sources when occasion presented itself for its profitable employment.

7. *Question VI.—Is it prudent for the Government to pledge itself to place all its balances in the Presidency towns in the hands of a bank?*

We do not consider that it would be prudent for Government to pledge itself to place all its Presidency balances in the hands of a Central Bank without considerable restrictions and some sort of control over the operations of the bank.

8. *Question VII.—Is it desirable to entrust to a bank the management of the paper currency, due regard being had to the principles upon which it was established in 1862?*

Our Honourable Colleague Sir E. Law is of opinion that the management of the paper currency by a bank would be preferable to its management by Government, always provided that the bank to which this responsibility was entrusted was established on suitable lines, and that Government had some control over its operations. While feeling some doubt as to the desirability of transferring any of the banking functions at present exercised by Government, we are in accord with our Honourable Colleague in thinking that it would be unwise to entrust them to any institution that is not under the most disinterested management. The Bank of England offers an example of an establishment which is by reason of its constitution more interested in maintaining its prestige than in adding a temporary percentage to the dividends of its shareholders. But we fear that in India the voice of the shareholders would always make itself heard; and it would therefore be necessary, before making over to a bank any of the present operations of Government, to provide for some form of Government control.

9. It will thus be seen that we admit the force of some of the objections which have been raised against the scheme, the chief of which is the cost of providing the extra capital that would be required. Of the capital at present available for financing the trade of India it is difficult to form a precise estimate. The total capital of all the Joint Stock Banks amounts to Rs. 25,39,09,500, but this includes the whole capital of the Exchange Banks, a large proportion of which is employed out of India. It is impossible to fix what this proportion may be, but there is reason to believe that considerably less than one-half of the capital of these banks could be made quickly available in India to meet special demands.

10. We think it may be accepted that the maintenance of a gold reserve for exchange purposes, the reason originally put forward at the Currency Commission for the suggestion of the establishment of a Central Bank, is at all events a much more serious motive for considering the question than the more doubtful requirements of loanable capital for trade purposes. Three millions sterling may be taken as the minimum addition which, for practical purposes it would be worth while to consider as a gold reserve, though we should prefer to see a larger sum secured, affording a more effective

guarantee. The cost of holding this capital evidently depends on the opportunities which the bank could find for its profitable employment. The banks have consistently maintained that there is no opportunity for the constant profitable employment of any further capital than they already command, and, though his earlier impressions were different, a close study of the question has forced on our Honourable Financial Colleague the conviction that the contentions are in the main correct. It may be added that as regards funds on which it is intended to rely as a sure resource for exchange purposes, their employment must necessarily be so restricted as to put special difficulties in the way of their profitable investment.

11. The average dividend paid by he Bank of Bengal is 10 per cent. and the bank's representatives have expressed the opinion that if they were to add appreciably to existing capital, they must, to maintain dividends, find from extraneous sources a return of 8 per cent. on the additional sum. It is impossible for us to pronounce on the fairness of this estimate, but we are inclined to consider it as a reducible maximum. It might perhaps be found as the result of experience, that it should be reduced to 6 per cent. It may be noted in this connection that the Presidency Banks are asking for the relaxation of some of the restrictions under which they now work, and we are inclined to think that in the event of amalgamation certain concessions might reasonably be admitted. It is again impossible to estimate beforehand the value of such concessions, but they may perhaps be roughly estimated at 3 lakhs per annum, or $\frac{2}{3}$ per cent. on an additional capital of 3,000,000*l*. Thus if we were to require the combined capital of the Presidency Banks to be increased to this extent, we must be prepared to accept as a fair demand for compensation or allowance, an annual sum equal to 5 per cent. on the increase.

12. As the Government of India can borrow money at much cheaper rates than 5 per cent., it would be unprofitable, as far as the maintenance of a gold reserve is concerned, to employ the agency of an amalgamated bank for holding it.

13. There are other practical difficulties in the way of amalgamation arising out of provincial and personal jealousies; and, as we have explained in paragraph 8 above, we fear it would be impossible to find for a Central Bank in India a body of Directors who would conduct their business under the same influences as those which guide the Directors of the Bank of England. We do not think it necessary at present to dilate further upon these difficulties, which are not perhaps insurmountable, because we have decided, for the other reasons set forth above, to recommend to Your Lordship that the proposal to amalgamate the three Presidency Banks should not be persevered with for the present.

14. We append a separate minute by the Honourable Sir Edward Law which explains the arguments on which the main conclusions set forth above have been arrived at. We are aware that many of the questions involved are of a controversial nature, but we have accepted our Honourable Colleague's final deduction that sufficiently strong reasons have not been shown for carrying out the amalgamation scheme at the present time. We are therefore regretfully compelled to advise that the scheme should be held in abeyance, although we desire at the same time to record our deliberate opinion that it would be distinctly advisable, if practicable, to establish a Central Bank in India, so as to relieve Government of its present heavy responsibilities and to secure the advantages arising from the control of the banking system of a country by a solid and powerful Central Institution.

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## Establishment of a Central Bank.

*Minute by the Honourable Sir Edward Law, K.C.M.G.*

Last winter I had the opportunity of discussing the question of the desirability of founding a Central Bank Institution, with Directors and Managers of the three Presidency Banks, and also with representatives of the Exchange Banks and some leading merchants, and I proceed to note

the impressions and opinions resulting from my conversations with these gentlemen.

2. There are, I think, two main questions for consideration; (1) the desirability of establishing a Central Bank; (2) the cost to Government of establishing such a bank.

3. There is necessarily a close connection between these two questions, the desirability of attaining an object being subject to consideration of the cost of attainment.

4. I will assume for the moment, that the establishment of a central banking establishment in India is held to be desirable in principle. Its desirability was accepted by my predecessor, and I agree that it is desirable, if practicable and not too expensive or costly to Government, although my views on this question may in some respects differ from those set forth in the various notes and minutes by the Honourable Mr. Dawkins.

5. Admitting then the general desirability of a Central Bank, we should endeavour to estimate what would be the cost of maintaining such an establishment.

6. The cost must, in the first instance, depend on the amount of capital required to be invested in the proposed bank and the use which can be made of that capital for dividend earning. This question is directly posed in paragraph 3, No. 1 of the Secretary of State's despatch No. 40 (Financial) of March 22, 1900.

7. For the purpose of estimating cost, we need only consider the minimum which might possibly suffice for the ends in view, but the fixing of this minimum is not an easy problem.

8. The sum required, must, I think, depend, in the first instance, on whether the object chiefly considered is —

(*a*) to form a reserve of gold available for exchange purposes; or

(*b*) to add to the general capital resources in India, available for trade purposes in seasons of monetary stringency.

The former was, I understand, the object in view when the proposal to found a Central Bank was first made at the sittings of the Currency Commission; the latter appears gradually to have taken its place.

9. If the primary object is considered to be the augmentation of the reserve of gold available for exchange purposes, I think that as we have provisionally fixed 7,000,000*l.* as the maximum sum to be held in the Currency Reserve, and as it will be long before our Gold Reserve Fund reaches an important amount, we may assume that 3,000,000*l.* is the minimum sum which would prove a really useful addition to our gold resources.

10. The next question, that of estimating the minimum sum that may be required as an addition to the capital already available for trade purposes is a particularly difficult one. It is generally assumed that trade demands for loanable capital are closely connected with the fluctuating requirements for cash for the movement of crops, and though many objections may be made to the assumption that the demands for loanable capital will vary in direct relation with the volume and value of exports of produce, at different seasons and periods, a study of the statistics of the export trade should afford useful indications to guide us in our inquiry.

11. Comparing the value of exports in the year 1867–68 with the value of exports during the last twelve months, we find that the value of exports in the first period was 50·87 crores, and in the second period 105·7 crores, or an approximate increase of 100 per cent. Consequently, as far as this important factor in our consideration is concerned, it might be assumed that the demand for loanable capital is now double what it was in the year 1867.

12. But besides certain other factors manifestly affecting the situation such as progressive improvement of communications and increasing credit facilities, I must call attention to the curious results shown in the appended Table A.

## TABLE A.

*Statement showing the value of merchandise exported from India during the years* 1897, 1898, 1899 *and* 1900 *with the Bengal Bank's maximum published rate of interest and the rate of Council Bills for the same period.*

| Months. | 1897. | | | 1898. | | |
|---|---|---|---|---|---|---|
| | Value of Exports. | Rate* for Council Bills. | Rate of Interest. | Value of Exports. | Rate* for Council Bills. | Rate of Interest. |
| | Rs. | Pence per rupee. | Per cent. | Rs. | Pence per rupee. | Per cent. |
| January - | 8,78,04,851 | 15·189 | 10 | 9,34,52,784 | 16·002 | 11 |
| February - | 9,82,61,163 | 15·241 | 10 | 9,70,68,863 | 15·920 | 12 |
| March - | 10,25,04,193 | 15·066 | 10 | 9,94,34,555 | 15·874 | 12 |
| April - - | 7,22,02,871 | 15·009 | 10 | 9,53,28,942 | 15·959 | 12 |
| May - - | 8,09,19,405 | 14·455 | 10 | 10,85,85,324 | 15·961 | 11 |
| June - - | 7,19,85,838 | 14·648 | 10 | 9,42,65,299 | 15·888 | 11 |
| July - - | 7,62,03,383 | 15·031 | 7 | 9,62,28,911 | 15·801 | 8 |
| August - | 7,17,54,950 | 15·494 | 5 | 8,90,21,171 | 15·899 | 4 |
| September - | 6,57,94,038 | 15·814 | 6 | 8,09,44,965 | 15·966 | 5 |
| October - | 7,46,14,910 | —(1) | 7 | 8,26,62,148 | 15·987 | 5 |
| November - | 8,88,93,382 | —(1) | 7 | 8,05,72,895 | 15·954 | 5 |
| December - | 8,30,47,750 | 15·400 | 9 | 8,62,74,240 | 16·007 | 6 |
| | 97,34,86,734 | — | — | 1,10,28,40,088 | — | — |

| Months. | 1899. | | | 1900. | | |
|---|---|---|---|---|---|---|
| | Value of Exports. | Rate* for Council Bills. | Rate of Interest. | Value of Exports. | Rate* for Council Bills. | Rate of Interest. |
| | Rs. | Pence per rupee. | Per cent. | Rs. | Pence per rupee. | Per cent. |
| January - | 10,21,84,221 | 16·087 | 7 | 10,32,92,817 | 16·160 | 8 |
| February - | 10,07,42,555 | 16·077 | 7 | 9,79,89,343 | 16·098 | 8 |
| March - | 11,14,04,069 | 16·019 | 7 | 9,01,30,034 | 16·041 | 8 |
| April - - | 9,21,95,847 | 15·995 | 7 | 8,03,05,815 | 15·973 | 6 |
| May - - | 9,20,44,648 | 15·979 | 6 | 9,17,46,214 | 15·987 | 6 |
| June - - | 8,67,99,268 | 15·994 | 5 | 7,95,87,619 | 15·984 | 5 |
| July - - | 9,73,36,326 | 15·984 | 5 | 7,49,66,216 | 15·941 | 4 |
| August - | 8,78,49,348 | 15·972 | 4 | 7,69,67,938 | 15·933 | 4 |
| September - | 8,11,85,607 | 16·079 | 6 | 7,14,77,871 | 15·951 | 5 |
| October - | 8,77,16,005 | 16·135 | 8 | 10,38,06,652 | 15·933 | 5 |
| November - | 8,19,98,412 | 16·118 | 7 | 8,89,31,218 | 15·963 | 4 |
| December - | 9,15,78,650 | 16·069 | 7 | 9,78,67,151 | 16·037 | 7 |
| | 1,11,30,34,946 | — | — | 1,05,70,68,888 | — | — |

(1) No bills were drawn in these months on account of the famine. * Average rate.

This table shows the value of exported merchandise, month by month, for the last four years, with the corresponding maximum rates of discount at the Bank of Bengal. In this connection, the private memorandum by Mr. A. M. Lindsay, reproduced below, may be considered.

"A comparison of the rates of interest ruling in 1899 and 1900 with those in force during the preceding two years appears to indicate that the flow of capital to India anticipated by the Indian Currency Committee of 1898 has begun, and to judge by the comparative ease with which the exceptional strain caused by the famine of 1900 was met, there is reason to believe that should confidence in the stability of exchange be maintained, the existing facilities for the import of foreign capital will be ample to meet all legitimate demands on the short loan market in India. The years 1897 and 1900 were years of famine, and as usual at such times the demands on the money market were enhanced by the large internal trade in highly priced food-grains, while the local supply of money was curtailed by the reduction of the Government deposits with the Presidency Banks. In 1897 there was little confidence in exchange and therefore an inadequate import of capital, but so well did the Exchange banks perform their duty in 1900, that although the famine was more severe, the export trade slightly larger

and money dearer in London owing to the Transvaal War, the Bank of Bengal's published rate of interest averaged 5·343 per cent. only, against 7·925 per cent. in 1897, and 8·398 in other great famine year, 1877.

"A comparison of the rates of 1898 and 1899, non-famine years, also certifies to the change in the resources of the Indian money markets caused by fixity of exchange. In January 1898 exchange reached 16*d.* and the flow of capital from England to India was checked because there was a risk of loss and no prospect of gain on its return; but in 1899 there was a growth of confidence in exchange. Council remittances were overbought to the extent of 279 lakhs in excess of the balance of trade and Government Paper transfers, indicating that the anticipated flow of capital to India had commenced. Private deposits with the Bank of Bengal rose from an average of Rs. 4,84,59,110 in 1898 to Rs. 5,44,11,218 in 1899, while its published rate of interest fell from an average of 8·065 in the former year to 5·915 in the latter."

13. Referring to the figures of Table A., a close relation between the rate of discount and the value of exports might have been expected, but apparently there is very little! It will be observed that, whilst a 7 per cent. rate existed concurrently with the comparatively small exports during October and November 1897,* no higher rate was induced by the comparatively large exports in the first three months of 1899; and, that whilst a 10 per cent. rate was maintained in April 1897, when the value of exports was below average, a 5 per cent. rate sufficed for the large exports of October 1900.

14. These figures would seem to indicate that the rate of discount, and therefore the demand for loanable capital, has been more dependent on speculation and the nervous apprehensions of traders than on ordinary trade requirements. I will return to this question, but, meanwhile, for the purposes of the discussion of the minimum required addition to loanable capital in India, we may admit the generally accepted theory, and assume that during the last 33 years this requirement has increased in a proportion bearing some relation to the increase in the value of exports. The latter has doubled, and if we admit any connection between the two proportions, I think, we may say that the amount of available loanable capital ought to have increased by at least 75 per cent.

15. Objection has been taken to my assumption that the value of exports are an indication of the requirements of money for trade, and it has been specially suggested that the difference between the values of imports and exports would afford a better criterion, since a portion of the exports are paid for by imports.

16. I do not admit the correctness of the objection raised. First, because the values of imports, as compared with those of exports are relatively steady and they are not, apparently, affected to any appreciable extent by the period of the year; their influence is therefore a comparatively steady factor, which may be neglected as a contributing influence to the fluctuations we are considering. This is shown by the figures in the following table:—

*Value of Imports (excluding Government Stores and Treasure) from 1896.*

| Month. | 1896. | 1897. | 1898. | 1899. | 1900. | 1901. |
|---|---|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| January - | 6,23,32,200 | 5,48,46,769 | 6,76,92,048 | 7,05,23,868 | 6,52,20,624 | 7,63,83 354 |
| February - | 5,76,06,280 | 5,30,22,309 | 5,86,79,927 | 6,07,82,903 | 5,05,37,566 | 6,47,47.164 |
| March - - | 6,68,54,865 | 5,64,21,094 | 6,65,78,661 | 6,46,87,298 | 6,11,11,963 | — |
| April - - | 6,14,61,501 | 5,59,65.438 | 5,25,71,122 | 6,31,47,132 | 5,54,03,633 | — |
| May - - | 5,86,32,156 | 4,82,50,471 | 5,01,47,844 | 6,01,15,250 | 6,11,13,567 | — |
| June - - | 6,35,48,053 | 5,23,36,351 | 5,37,75,863 | 5,20,02,690 | 5,61,35,857 | — |
| July - - | 5,94,81,813 | 5,06,81,652 | 4,78,53,792 | 5,23,81,107 | 4,91,74,098 | — |
| August - - | 5,58,00,882 | 4,80,06,471 | 5,23,30,717 | 6,00,07,872 | 6,17,18,897 | — |
| September - | 6,65,22,773 | 5,99,43,926 | 5,39,69,679 | 5,48,55,106 | 5,36,25,066 | — |
| October - | 6,95,21,778 | 5,76,43,345 | 5,44,26,822 | 6,46,71,519 | 6,69,31,288 | — |
| November - | 5,88,52.581 | 6,55,61,746 | 6,43,81,912 | 6,29,41,461 | 6,96,23,765 | — |
| December - | 6,10,34,263 | 6,26,22,839 | 5,83,51,586 | 6,01,26,354 | 6,91,42,899 | — |
| Total - | 74,16,49,145 | 66,53,03,411 | 68,07,54,979 | 72,62,42,550 | 71,97,99,223 | — |

* On this the Comptroller-General observes that famine expenditure had at the time so exhausted Government balances that the Secretary of State had to buy rupees in India instead of selling them.

17. Secondly, it is not for financing the export trade alone for which money is required. It is required in India, as in all other countries, rather for the general financial operations in connection with harvesting and movement of crops. Of these operations, the export of the surplus production above local needs, is the only one concerning which we can obtain reliable figures, and it is certain that the greater the production, the greater the surplus for exportation, and consequently I consider that the amount of exports is a very fair index of the amount of production, and therefore of the magnitude of the financial operations in direct relation therewith.

18. I have taken the year 1867 for comparison with 1900, because in the year 1867 an estimate of requirements was made by a very able man, Mr. Dickson, then Secretary of the Bank of Bengal, who was at the time advocating the establishment of a Central Bank with an increase of capital and without any reference to possible requirements in connection with the exchange question. Mr. Dickson proposed a Central Bank with a capital of 10 crores, of which 5 crores were to be paid up, as also a reserve of 80 lakhs, and it is evident that he fixed this amount with due regard to the requirements of trade, in 1867.

19. I have not been able to ascertain the amount of the combined capital of the banking establishments in India, other than the Presidency Banks, in 1867, but I have obtained figures for 1863, and in the accompanying Table B. (*see* page 81) these figures will be found compared with the corresponding figures for 1900.

20. From Table B it will be seen that in 1863, the combined capital of the joint stock banks in India was Rs. 7,42,16,600. This figure includes, however, over 6 crores, the capital of the Exchange Banks, and it is well-known that all these banks and particularly the Comptoir d'Escompte de Paris, have so large a proportion of their capital employed in other countries, that only a limited proportion is available for India. It is impossible to fix what this proportion may be, but, I think, it will be accepted that not more than one-half of the capital of the English Banks and not more than one-third of that of the foreign banks could be made quickly available in India to meet special demands.

21. I proceed, then, to correct the figures of 1863 in accordance with the above assumption, and they will then stand thus:—

| | Rs. |
|---|---|
| Half capital of English Exchange Banks - - | 2,08,80,000 |
| One-third capital of Foreign Exchange Banks - | 64,46,667 |
| India joint-stock Banks - - - - | 1,31,16,600 |
| Total - - - - - | 4,04,43,267 |

To the above amount we must add Mr. Dickson's assumed figure of Rs. 5,80,00,000 as the desirable capital for the amalgamated Presidency Banks, and we thus arrive at an estimated total of Rs. 9,84,43,267. We should, however, admit some possible increase in the capital of the various banks, in the interval between the years 1863 and 1867, and we may, therefore, I think, fairly say that Mr. Dickson's estimate of total requirements in the year 1867 was approximately 10½ crores.

22. If we had no other factors than the increase of trade between 1867 and 1900 to take into consideration, we might say that about 21 crores of loanable capital are required to satisfy present demands. But I have already pointed out that there are other factors such as improved communications and facilities for credit, which must influence the situation, and I think, therefore, that we should not be justified in adding more than 75 per cent. to Mr. Dickson's estimate for 1867. Adding then 75 per cent. to 10½ crores we arrive at an estimate of 17 to 18 crores of loanable capital as necessary to meet present requirements.

23. Referring again to Table B. we see that the total capital of the joint-stock banks is now Rs. 19,86,09,500, and correcting this figure as above, to

## TABLE B.

*Capital of Joint Stock Banks excluding the Presidency Banks.*

| | PROVINCIAL BANKS. | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1863. | | | | 1900. | | |
| | Paid up Capital. | Reserve Fund. | TOTAL. | | Paid up Capital. | Reserve Fund. | TOTAL. |
| | Rs. | Rs. | Rs. | | Rs. | Rs. | Rs. |
| Simla Bank, Limited - | 6,38,500 | — | 6,38,500 | | 10,00,000 | 12,50,000 | 22,50,000 |
| Agra Savings Fund - | 15,000 | 4 500 | 19,500 | Closed. | | | |
| Uncovenanted Service Bank, Limited. | 30,000 | — | 30,000 | Closed. | | | |
| Punjab Bank, Limited - | 5,00,000 | — | 5,00,000 | - - - | 1,78,750 | 1,75,000 | 3,53,750 |
| Central Bank of Western India. | 8,18,600 | 50,000 | 48,68,600 | Closed. | | | |
| | | | | Allahabad Bank, Limited | 5,00,000 | 9,50,000 | 14,50,000 |
| | | | 60,56,600 | Bank of Calcutta, Limited | 15,00,000 | 10,00,000 | 25,00,000 |
| | | | | Bank of Upper India, Limited. | 10,00,000 | 5,40,000 | 15,40,000 |
| | | | | Bhargava Commercial Bank, Limited. | 3,00,000 | 1,30,000 | 4,30,000 |
| | | | | Oudh Commercial Bank, Limited. | 3,00,000 | 1,80,000 | 4,80,000 |
| | | | | Kashmir Bank, Limited | 1,00,000 | 32,000 | 1,32,000 |
| | | | | Punjab National Bank, Limited. | 2,00,000 | 1,00,000 | 3,00,000 |
| | | | | | | | 94,35,750 |
| | LOCAL BANKS WITH LONDON CONNECTION. | | | | | | |
| Delhi Bank Corporation, Limited. | 20,00,000 | 60,000 | 20,60,000 | Closed. | | | |
| Commercial Bank of India, Limited. | 50,00,000 | — | 50,00,000 | - - - - | 40,00,000 | — | 40,00,000 |
| | | | 70,60,000 | Delhi and London Bank, Limited. | 33,76,250 | — | 33,76,250 |
| | | | | | | | 73,76,250 |
| | EXCHANGE BANKS. | | | | | | |
| | £ | £ | £ | | £ | £ | £ |
| Oriental Bank Corporation. | 1,266,000 | 252,000 | 1,512,000 | Closed. | | | |
| Agra and United Service Bank, Limited. | 1,000,000 | 200,000 | 1,200,000 | Closed. | | | |
| Chartered Mercantile Bank of India, London and China. | 500,000 | 60,000 | 560,000 | | 561,500 | 30,000 | 591,500 |
| Chartered Bank of India, Australia and China. | 644,000 | 10,000 | 654,000 | | 800,000 | 525,000 | 1,325,000 |
| Bank of Hindustan, China and Japan. | 250,000 | — | 250,000 | Closed. | | | |
| Comptoir D'Escompte de Paris. | 1,600,000 | 334,000 | 1,934,000 | | 6,000,000 T.S. | 640,000 T.S. | 6,640,000 T.S. |
| | | | 6,110,000 | Deutsch Asiatische Bank | 5,000,000 | — | 5,000,000 |
| | | | | Hong Kong and Shangai Banking Corporation. | 10,000,000 | 1,000,000 | 11,000,000 |
| | | | | National Bank of India, Limited. | £500,000 | £330,000 | £830,000 |

| SUMMARY. | Rs. | | Rs. |
|---|---|---|---|
| Provincial Banks - - - - - - | 60,56,600 | | 94,35,750 |
| Local Banks with London connection - - | 70,60,000 | | 73,76,250 |
| Exchange Banks - - - - | *6,11,00,000 | | 18,17,97,500† |
| | 7,42,16,600 | | 19,86,09,500 |

* At £1 = 10 rupees. † At £1 = 15 rupees.

make allowance for the non-available portion of the capital of the Exchange Banks established abroad, we find the following results:—

| | Rs. |
|---|---|
| Half capital of English Exchange Banks - - | 4,69,32,500 |
| One-third capital of Foreign Exchange Banks - | 2,93,10,833 |
| India joint-stock Banks - - - - | 1,68,12,000 |
| Total - - - - - | 9,30,55,333 |

To the above amount we must add the existing capital of the Presidency Banks Rs. 5,53,00,000, and we arrive at a sum of Rs. 14,83,55,333, as available to-day for trade requirements.

24. Consequently, adopting the above figures and calculations, it would appear that an addition of about 3 crores is required to the amount of capital now available in India for the demands of trade.

25. It has been suggested that the proportions of one-half and one-third which I have taken as the available capital of the English and Foreign Exchange Banks are much too high, but if these proportions be considerably reduced, and we take an average of one-quarter only, as available from the capital of both categories of banks, the results of the above calculation will not be materially affected. We shall then have—

Available capital in 1867 Rs. 8,74,66,045 or, say, $9\frac{1}{4}$ crores.
Available capital in 1900 Rs. 12,24,46,514 or, say, $12\frac{1}{4}$ crores.
Difference approximately 3 crores.

26. There are several considerable assumptions in the foregoing calculations but though it may be admitted that some are questionable, I think that on examination it will be found that the points of doubt are not of such a nature as to invalidate all conclusions.

27. With the greatest respect for Mr. Dickson's understanding of the commercial and banking situation, it cannot, however, be assumed that he was necessarily quite right in his estimates, but it may be pointed out that the addition of one crore and 80 lakhs to banking capital, which he proposed, was equivalent to an addition of over 22 per cent. to existing available resources, and it would seem improbable that a proposal for so large an increase erred on the side of illiberality. On the contrary, it must be remembered that in August 1872 and April 1873, the Bank of Bengal addressed the Government of India requesting permission to reduce their capital. Arguments and figures were set forth to prove that the capital of the bank was too large for profitable employment, and finally the Government was convinced, and in 1876, consented to an important reduction! In this connection see the appended Table C which was given in the letter from the Bank of Bengal to the Government of India, dated April 30, 1873.

## TABLE C.

*Accompanying letter, dated the 30th April 1873, from the Bank of Bengal to the Government of India.*

| YEAR. | Average Amount of Deposits including Government Balances. | Average Amount availed of from Deposits for Bank's Business. | Average Percentage of Deposits Employed for Bank's Business. | Average Amount of Government Balances Appropriated for Bank's Business. | Average Percentage of Cash Balance and Government Securities to Liabilities. |
|---|---|---|---|---|---|
| | | | Per cent. | | Per cent. |
| 1868 - | 4,32,49,438 | 48,50,743 | 11 | Nil | 91 |
| 1869 - | 4,16,97,066 | 6,61,233 | $1\frac{1}{2}$ | Nil | 99 |
| 1870 - | 5,16,34,668 | 29,79,057 | $5\frac{3}{4}$ | Nil | 91 |
| 1871 - | 7,13,88,174 | 93,85,637 | 13 | 34,48,835 | 84 |
| 1872 - | 7,15,17,077 | 83,94,409 | $11\frac{3}{3}$ | 21,37,330 | 86 |

28. Another assumption is that although trade has doubled, since 1867, the cash requirements for carrying it on have increased by 75 per cent. But in view of the very great concurrent increase of credit facilities, I should think that 75 per cent. might reasonably be held to be a liberal estimate.

29. Finally, there is a considerable assumption in taking the available proportion of the capital of the Exchange Banks, at one-half for English concerns and at one-third for the foreign establishments. I must leave the decision as to the correctness of this estimate to persons having an intimate acquaintance with the working of these establishments, only remarking that from what I have heard, I believe this estimate also to be sufficiently liberal, and that, as I have shown, if it be reduced, the results of my calculation will not be affected.

30. The general conclusion from the line of argument adopted must then be that, the estimate of three crores as an additional sum, which might be employed for trade requirements, may be taken as very amply sufficient, and personally I have no hesitation in accepting it as such, since it is confirmed by the figures in Table A, which, indeed, appear to indicate that, as far as trade is concerned, existing resources are sufficient, provided that the banking establishments are conducted with such circumspection as will insure their resources being reasonably free for the use of their trading clients in seasons of business activity.

31. I proposed to endeavour to establish a "minimum" for the additional requirements of loanable capital—the course of argument adopted has involuntarily led me, in the first instance, to the establishment of a "maximum." That maximum works out at three crores of rupees, or two millions sterling. This, however, is a sum which, if really required, could I believe readily be found by the existing banking establishments outside the Presidency Banks, and without making any demands on the latter for reorganisation or the increase of their capital. If it is not so found, the reason to my mind is clear, namely, that it is not wanted.

32. Till a comparatively recent date the banks were nervous about transmitting their gold resources to India, but such nervousness due to apprehensions concerning the course of exchange, has now disappeared and gold is frequently and constantly sent to India for investment. The only obstacle which hindered the supply of capital by private initiative has, therefore, disappeared.

33. General rates of discount are sufficiently high in India, as compared with those at home, to attract all the capital required for sound banking business and we cannot desire that a plethora of capital should induce the banks to foster unsound business.

34. The inevitable conclusion is that, as regards additional trade requirements for loanable capital, the "minimum" we sought to establish can only be fitly represented by zero.

35. I return now to a point which was earlier mentioned incidentally, namely, that latterly, monetary difficulties in India have owed their origin to speculative finance, and the nervousness of traders, rather than to the normal absence of sufficient resources to meet the legitimate banking requirements of trade.

36. Although the figures in Table A indicate pretty clearly that ordinary requirements can be properly met by present resources, they equally show that on several occasions, and notably during the first six months of 1898, there has been extreme and most prejudicial stringency in the money market. This condition of stringency could not arise without cause, and the only causes that can be suggested are the locking up of the resources of the banks in transactions with clients, outside ordinary transactions with purely commercial customers, and the nervousness of traders who noticing the low level of banks' resources at the commencement of an active business season, take fright and assist by their anxiety in abnormally, and perhaps unnecessarily, forcing up bank rates.

37. This is, I think, the only explanation which can be found for the remarkable figures shown in Table A, and its correctness has been strongly confirmed during the last few weeks.

38. I have already pointed out the fact that the very large exports in October 1900 were financed at a 5 per cent. rate of discount, followed by a 4 per cent. rate in November, whilst in December there was a sudden jump up to 7 per cent. This for a couple of weeks produced something like a panic among the commercial community who were looking forward to a continued rise, resulting in disastrous rates just at the commencement of the ordinarily busiest season. I do not say that these apprehensions were entirely unfounded, but the situation was undoubtedly aggravated by the manner in which they were given way to.

39. On this last occasion, the origin of the monetary difficulty was distinctly traceable to causes having no relation with ordinary demands for money for legitimate trade purposes. It is well-known that the difficulty began in Bombay in connection with a heavy speculation in Government securities at the same time that some of the Exchange Banks counting on a continuance of the low rates of the autumn, had made advances on terms at very low rates of interest. This, combined with rising rates and stringency in London, resulted in calls on the Presidency Banks which made the crisis general.

40. The following statement shows the rapidity with which the pressure made itself felt, and the serious consequences which followed:—

*Weekly Percentage of Cash to Liabilities in the Presidency Banks.*

| Week ending. | Madras. | Bombay. | Bengal. |
|---|---|---|---|
| December 8, 1900 - - - | 41·40 | 38·16 | — |
| „ 11, „ - - - | — | — | 37·7 |
| „ 15, „ - - - | 36·76 | 26·19 | — |
| „ 21, „ - - - | — | — | 30·9 |
| „ 22 „ - - - | — | 19·65 | — |

And, meanwhile, the Bank of Bengal rate rose from 4 to 7 per cent. and all this took place whilst trade movements, as indicated by the monthly values of exports, had declined from the high figures of October.

41. As a result of the foregoing considerations, I think that we may accept that the maintenance of a gold reserve for exchange purposes, the reason originally put forward at the Currency Commission for the suggestion of the establishment of a Central Bank, is at all events a much more serious motive for considering the question than the more than doubtful requirements of loanable capital for trade purposes.

42. I have suggested that for exchange purposes a sum of three millions sterling is the minimum addition which, for practical purposes, it would be worth while to consider, though I may say that I should prefer to secure a larger sum affording a more effective guarantee. However, we may proceed to consider the cost of an addition of 3,000,000*l.* to the existing capital of the Presidency Banks.

43. The cost of holding additional capital evidently depends on the opportunities which the bank could find for its profitable employment. The banks have consistently maintained that there is no opportunity for the profitable employment of any further capital than they already hold, and though my earlier impressions were different, a close study of the question has now forced on me the conviction that their contention is in the main correct. I may add that as regards any funds on which it was intended to rely as a sure resource for exchange purposes, their employment must necessarily be so restricted as to put special difficulties in the way of their profitable investment.

44. The average dividend paid by the Bank of Bengal is 10 per cent., and the Manager and Secretary whom I have consulted have expressed the opinion that if they were to add appreciably to existing capital, they must, to maintain dividends, find from extraneous sources a return of 8 per cent. on the additional sum. It is impossible for any one not intimately acquainted with the working of the bank to pronounce on the accuracy of this estimate, but I should be inclined to accept it as a reducible maximum.

45. Among other points to be taken into consideration, is the fact that the Presidency Banks are asking for the relaxation of some of the restrictions under which they now work, and I gather that in the opinion of my predecessor, as in my own, certain concessions might reasonably be admitted. It is impossible to estimate beforehand the value of such concessions, but they would undoubtedly have a distinct money value to the banks, and I am inclined, as a guess, to put this value at a couple of lakhs per annum, or,

if for the sake of argument we admit that net profits might be increased by one per cent. through the advantages of additional facilities for working, we may roughly take three lakhs per annum as the possible gain to the banks.

46. Three lakhs represent ¾ per cent. on an additional capital of 3,000,000*l.*, and I think we might perhaps estimate the cost of such an addition as susceptible of reduction to this extent, without involving any cost to Government. Further we may perhaps assume that the maximum cost, as estimated by the bank authorities might, as the result of experience, be reduced from 8 to 6 per cent., but when every allowance of this kind is made, I think we must still be prepared to accept as fair a demand for a compensation or allowance of 5 per cent. on the additional capital.

47. But the Government of India can borrow money at much cheaper rates than 5 per cent., and therefore as far as the maintenance of a gold reserve is concerned, it would be unprofitable to employ the agency of an amalgamated bank for holding it.

48. The arguments and considerations set forth in the foregoing pages are necessarily in many respects inconclusive. Where there are so many doubtful elements and estimates, the correctness of which could only be established by experience, this is inevitable. I have endeavoured, however, to take throughout, within reasonable limits, such a view of the situation as might be favourable to the idea of the utility of the establishment of a Central Bank, and, nevertheless, the conclusions which have forced themselves on my mind are that there is under present conditions no real necessity for the foundation of such a bank in the interests of trade, and that although, in my opinion, the existence of a strong bank with abundant resources would be useful in connection with possible exchange difficulties, and I may add, would, from other points of view, be convenient to Government, the direct cost of its establishment would be greater than I venture to recommend for acceptance.

49. I do not consider that it would be prudent for Government to pledge itself to place all its balances in the hands of a Central Bank without considerable restrictions and some sort of control over the operations of the bank.

50. I think that the management of the paper currency by a bank would be preferable to its management by Government, always provided that the bank to which this responsibility was entrusted was established on suitable lines, and that Government had some control over its operations.

51. In speaking of suitable lines, I am particularly referring to the constitution of the Bank of England. That establishment is by reason of its constitution more interested in maintaining its prestige than in adding a temporary additional percentage to the dividends of its shareholders, and I fear that it would be quite impossible to conduct a Central Bank in India on the same lines and under the same influences as those which guide the Directors of the Bank of England.

52. I think I should here state that, whilst convinced that it is unnecessary to establish a Central Bank for the assistance of trade, and unprofitable, as regards provision of assistance in connection with possible exchange difficulties, I am still of opinion that if practical difficulties could be overcome, it would be distinctly advisable to establish such a bank so as to relieve Government of present heavy responsibilities and to secure the advantages arising from the control of the banking system of a country, by a solid, powerful, Central Institution.

53. In India Government is to-day the chief banker. I do not think it well that Government should occupy such a position*; and I am only deterred by what appear to me to be the very great practical difficulties of the situation, from making proposals to relieve Government of its banking functions and responsibilities. Among these difficulties I consider that of

* I should mention that this view is not accepted by either Mr. Finlay or Mr. Cox.

securing a thoroughly suitable Board of Directors having the necessary leisure to devote to the business, as being one of the most serious.

54. I have not, in these notes, dealt with the important practical question of the difficulties which the idea of the amalgamation of the Presidency Banks presents by reason of provincial and personal jealousies. If on the considerations I have adduced the idea of amalgamation be postponed, there is no need to discuss the subsidiary question as to how it could best be brought about. It is sufficient to remark that this question would in itself present very great difficulties, though perhaps with time, care, and tact, these difficulties would not prove insurmountable.

31st January 1901. E. FG. LAW.

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No. 131, dated 26th July 1901.

From the SECRETARY OF STATE for India to the GOVERNMENT OF INDIA.

Your Excellency's letter, dated the 13th June, No. 199, together with the accompanying minute of Sir Edward Law, dated 31st of January, relating to the question of the establishment of a Central Bank of India, has been under my consideration in Council.

2. You will remember that the Currency Committee in their report referred to the need of improvement in the banking arrangements of India, and that in my despatch of the 25th July 1899 I specially recommended to your Excellency the consideration of Mr. Hambro's suggestion for a Central Bank, on the model of the Bank of France or of the Bank of England.

3. Since then the subject has occupied the attention of your Government and you have come reluctantly to the conclusion that the circumstances are unfavourable to the policy of pressing on the centralisation scheme at the present time. This opinion I consider myself bound to accept; but I agree with your Excellency that it will be distinctly advisable, as soon as may be practicable, to establish a Central Bank in India, for the reasons given in your letter and in Sir Edward Law's able minute; and I request that this object may be kept in view and that the scheme may be revived, whenever there is a probability of its being successfully carried out.

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## Papers relating to changes and proposed changes in the Presidency Banks Act (1904–6).

No. 264, dated Simla, the 21st July 1904.

From the GOVERNMENT OF INDIA, Finance and Commerce Department, to the SECRETARY OF STATE for India.

WE have the honour to lay before you certain proposals, which have long been under our consideration, for removing some of the restrictions imposed by the Presidency Banks Act on the business of those Banks.

2. In the correspondence, which closed with Lord George Hamilton's Despatch No. 131 (Financial), dated 26th July 1901, relating to the question of establishing a Central Bank of India, it was brought to notice that the limitations which at present curtail the operations of the Presidency Banks might reasonably be relaxed in certain directions. In particular we would invite a reference to the Despatch No. 17, dated 18th January 1900 (*see* page 399), in which Lord Curzon's Government expressed the opinion that, if the position of the Banks was strengthened by amalgamation and by an increase in their resources, it would be both safe and desirable to allow them to extend their business beyond their present limits.

3. When it was decided in 1901 that the time was not ripe for establishing a central banking institution in India, the question arose whether any of the requests of the Banks for increased facilities might be acceded to, although

no material change was to be made in their constitution. In our Financial Department's letter No. 474-A., dated 28th January 1901, the suggestions which had previously been put forward were tabulated and the Banks were invited to make further proposals. Their replies, copies of which are enclosed, raised a number of other questions, and it was eventually decided to postpone the consideration of them until our Honourable Financial Colleague should have an opportunity of discussing them verbally with the representatives of the Banks.

4. An informal conference was accordingly held at Calcutta in December 1902, between the Honourable Sir Edward Law and the Secretaries and Treasurers of the three Banks concerned, and Sir Edward Law's conclusions were then laid before the Directors of the Banks in our Financial Department letter No. 2265-A., dated 28th April 1903. You will see from that letter that our Honourable Colleague adhered to the opinion expressed by his predecessor that the various concessions asked for could not be granted unless the Banks were prepared to accept conditions which would materially strengthen their position. The Directors at first demurred to these conditions, but they have since agreed to them in a modified form, and we are now therefore in a position to put forward our recommendations, which, as will appear from the foregoing account of the negotiations, have been the outcome of long and mature consideration.

5. The most important change which we desire to recommend is the admission of the Presidency Banks in certain circumstances to the London market. It was pointed out in the Despatch of the 18th of January 1900, cited above, that the permission given by the Presidency Banks Act (XI. of 1876) to deal in securities of the United Kingdom has remained a dead letter because the operations of the Banks are confined to India. The extension of their operations to England was steadily resisted by the Secretary of State in 1862 and subsequent years on the ground that no Bank in India should be entrusted with the Government business unless it was absolutely debarred from dealing in foreign exchanges. The variations in exchange between India and the United Kingdom have now become so restricted that the objection taken on this ground appears to us to be no longer forcible. Moreover, the Banks have represented that all risks of fluctuations in exchange can be avoided by fixing the rates both ways at the time when the borrowing is conducted.

6. A further objection, adverted to in the same despatch, was that no risk should be incurred of the resources of the Banks being locked up in London when they might be required in India. The Banks have, however, pointed out that the concession of a power to borrow in London would lead to an increase, and not to a diminution or lock up, of their resources. It is possible that this objection, which was originally stated in the Secretary of State's Despatch No. 135, of the 2nd of May 1878 (*see* page 516), was based on the idea that the admission of the Banks to London would result in their being drawn into general banking business there, including the receipt of deposits and investment in sterling securities. We are prepared to meet this objection, if necessary, by prohibiting the Banks from receiving deposits in London or from investing in British securities, but we doubt the necessity of curtailing the powers of investment which they at present enjoy under section 36, clause (a), sub-clause (1) of the Presidency Banks Act.

7. The only other objection, which it appears to be necessary to discuss, is the effect on exchange of the proposed borrowing by the Presidency Banks in London. In paragraph 4 of the Despatch from Lord Curzon's Government No. 199, dated the 13th June 1901 (*see* page 426), it was stated that the general effect of the proposal would probably be to lower the average demand for Council Bills for the year. It is true that this effect will probably ensue if exchange is forced up to, or above, specie point in the busy season; but if the brisk demand for drafts on India in that season is freely met by the sale of Council Bills or Telegraphic Transfers at rates which will not drive gold to India, the rupees in the Currency Reserve being utilized, if necessary, for meeting the Bills or Transfers, the Secretary of State will be in a position to restrict his sales when the demand slackens, and to obtain funds for current expenditure

by transferring gold from Currency to Treasury account. We see no reason why it should not be possible to adjust the sale of Council Bills more closely to the needs of the market, so that the remittance of money by the Banks to India and back again to London will not have a prejudicial effect on the Government remittances.

8. The combined weight of the above objections does not appear to us to be great in comparison with the obvious advantages which would be secured to commerce and industry in India by the freer importation of funds in times of monetary stringency. We regard the provision of relief in such periods of temporary scarcity of capital as of far more importance to trade than the larger supply of permanent capital advocated by our predecessors four years ago. The periods of activity of many of the important industries of India are of short duration, and their demands for capital generally synchronize; it would appear to us to be unreasonable that the chief banks in India should be prevented from importing funds to meet those demands when they become acute.

9. We do not anticipate that the power to borrow in London would be frequently used, and we would in any case limit its exercise to occasions on which there is a real demand for money in India. Such a demand may be inferred to exist when the Bank rate is not lower than 6 per cent.; and we would therefore propose that a Presidency Bank should only be allowed access to London when its rate for demand loans has risen to this figure. We further propose that, in order to prevent the borrowing operations of the Banks from interfering with the arrangements for Government remittances, they should be required to make their remittances to or from London in such form as may be approved by the Comptroller General in each case.

10. The power which we propose to give to the Banks of borrowing in London implies permission to remit the funds borrowed to India, and also to make remittances to England for the repayment of loans raised there; and we would therefore allow the Banks to deal in foreign bills to this extent. We would also accede to a moderate request which has been preferred by the Bank of Bengal that the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers, subject to a limit of 200*l.* in each case.

11. Our next proposal is to allow the Banks to deal in securities issued by State-aided railways, such as branch lines constructed on rebate terms, or issued by District Boards, and to allow the Bank of Madras to deal in securities of the Government of Ceylon. The first two classes of these securities appear to us to be a perfectly safe and proper field of investment, and the possible objection that too much of the Banks' capital might be locked up in them will be obviated by the proposal set forth below to require the Banks to maintain a minimum proportion of cash to liabilities. With regard to the third class, Sir Henry Fowler in his Despatch No. 232 (Financial), dated 30th December 1894, expressed the opinion that it was objectionable to permit the funds of a Presidency Bank to be invested in the securities of another Government (except that of the United Kingdom). The Bank of Madras has, however, represented that it wishes to be in a position to advance money to approved customers on the securities of the Government of Ceylon rather than to invest money in them on its own account; and the Directors are willing to accept a proviso that such advances should be limited to resources raised in the Island of Ceylon itself. Subject to this proviso, we do not consider the proposal to be objectionable or likely to lead to a drain of funds from India.

12. Under section 37 of the Presidency Banks Act, the Banks are prohibited from making any loan or advance for a longer period than three months. It has been represented that many trades which the Banks are authorised to finance, as for instance the coffee trade in Southern India, require advances for more than three months at a time, and that the necessity of renewing the transaction at the end of that period is an inconvenience both to the Banks and to their customers. We consider that the representation is reasonable, and we propose to allow loans and advances on other than personal security to be made for a period not exceeding six months.

13. The last sentence of section 37 of the Act permits any of the Banks to allow any person having an account with it to overdraw without security to the extent of not more than Rs. 2,000 at any one time. Considering that by-laws framed in accordance with clause (*d*) of the same section permit of advances to an individual or partnership firm amounting to several lakhs of rupees, we think it reasonable to extend the limit for overdraft to approved customers, and we propose to fix it at such sum not exceeding Rs. 10,000 as may be prescribed by by-law.

14. Under the proviso to section 14 of the Act a maximum limit is set to the capital of each Bank. Since the sanction of the Governor General in Council is necessary, under section 13, to any increase of the Bank's capital, the effect of the proviso in question is to limit the powers of the Governor General in Council. We regard this limitation as unnecessary, and we propose to take the opportunity of repealing the proviso.

15. Under section 37 of Act IV. of 1862, the Bank of Bengal had power to take over the capital, assets, and business of any other bank in British India, provided that, after the purchase, the business should be carried on with, and subject to, the several restrictions contained in the Act. It is not apparent why this provision was omitted in the Act of 1876 and the Bank of Bengal asks that it may be restored. We think that it might be an advantage in times of crisis to allow a Presidency Bank to take over the business of a small Bank which otherwise might be compelled to close its doors. We therefore propose to restore this provision of the Act of 1862, with an additional limitation that the sanction of the Governor General in Council shall be necessary in each case.

16. Under section 36, clause (*a*), sub-clause (*b*) of the Act of 1876 the Banks are allowed to advance money on accepted bills of exchange and promissory notes endorsed by the payees, *i.e.*, practically on the security of two names. The Bank of Bengal, citing the analogy of the Bank of Egypt, asks to be allowed to advance money on the joint and several promissory notes of two or more persons unconnected in business. We see no objection to this suggestion, and propose to amend the section accordingly.

17. The Bank of Bengal also asks that loans to the Court of Wards in respect of estates under management may be included in the list of the Bank's authorised business. Seeing that these estates are managed by responsible officers of Government, such loans appear to us to be a safe investment, though the objection has been taken that the capital lent on the security of wards' estates might be locked up indefinitely. We think that this objection can be met by requiring the previous sanction of the Local Government to such loans and by limiting them to periods of six months. We propose to grant the power asked for on these conditions.

18. We turn now to the further restrictions on the conduct of the Banks' business, which we consider it necessary to introduce, and to which the Directors have agreed on condition that the proposals set forth above are carried into effect. Section 47 of the Act provides that two auditors shall be elected at the annual general meeting of the shareholders of the Bank. We think it desirable that the Government should have the right to insist that the accounts shall be audited by satisfactory persons, and we therefore propose to take power for the Governor General in Council to annul any particular election of auditors made under the section above cited. It has been suggested to us that this should be supplemented by taking power to Government to appoint auditors itself, if on a second election an unsuitable selection should be made. It will be necessary to consult the Banks before effect could be given to this suggestion, and we think this may appropriately be done when the draft bill is circulated for opinion.

19. Prior to 1862, when the Banks' charters were revised, they were required to maintain a cash balance of not less than one-fourth of their outstanding liabilities, but this requirement was removed in that year with the withdrawal of the right to issue notes, and there is at present no legal provision to prevent the Banks from letting their cash balances run unduly low. We consider it unsatisfactory that Banks doing the Government

business should be free from all checks on the depletion of their resources, and we propose that, concurrently with the grant of the concessions suggested above, the Banks should enter into an arrangement with Government which will ensure the maintenance of an adequate cash balance. The standard which after prolonged discussion we have decided to recommend as the minimum compatible with safety, is 33 per cent. of all liabilities (except Savings Bank deposits) payable at call or within one month. We accept the views of the Banks that other liabilities, being of a less pressing nature, need not be specially provided against.

20. We do not think it necessary to insert this provision in the Presidency Banks Act, since it has been represented to us that the imposition by law of a restriction of this kind might be regarded as indicating a want of confidence in the management of the Banks, and might therefore be injurious to their credit with the general public. For this reason we propose to embody this particular provision in a contract with each Bank as a condition on which it will continue to enjoy the use of the Government balances. The Directors of the three Banks have agreed to this course and they have further agreed to contract that, in the event of the cash balance of any Bank falling below the minimum standard stated above, the Bank will make good the deficiency, within such time as the Government may direct, either by—

(i) taking a loan from the Government at 6 per cent. or at Bank rate, whichever may be the higher, or

(ii) depositing gold with the Bank of England in London, and, if so required by the Government, expending such gold in the purchase of Telegraphic Transfers from the Secretary of State.

21. We have explained to the Banks that we do not contemplate undertaking any obligation to advance money to them in the circumstances under consideration, but we desire to reserve the right to supply the deficiency in this way if it should be convenient to us to do so. With regard to the proposal to require gold to be deposited with the Bank of England, we apprehend that in some cases the mere knowledge that the Banks' resources have been strengthened in this way may be sufficient to restore confidence in this country, and that it will not therefore be necessary always to require the money to be actually transferred to India.

22. You will see from the enclosed correspondence that the above proposals have assumed their present shape only after long and careful consideration, and that the concurrence of the Banks has been secured by modification of the suggestions originally put to them. We regard the settlement now proposed as a satisfactory one, and we are of opinion that by the offer of moderate and carefully guarded concessions our Honourable Financial Colleague has succeeded in obtaining the assent of the Banks to an arrangement which will add materially to the safe conduct of their business and to the security of the public funds which are committed to their charge. We trust therefore that you will be able to accept these proposals in their entirety, and will accord your sanction to the legislation necessary to carry them into effect.

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Enclosure No. 1.

No. 474A, dated the 28th January 1901.

From J. F. Finlay, Esq., C.S.I., Secretary to the Government of India, Finance and Commerce Department, to the Secretary and Treasurer, Bank of Bengal; to the Secretary and Treasurer, Bank of Bombay; to the Secretary and Treasurer, Bank of Madras.

The Government of India have still under their consideration the question of the establishment of a Central Bank, on which question it is anticipated that the Government of India will shortly be able to make definite proposals to the Secretary of State.

2. At the same time the question of increasing the general banking facilities by extending the operations of the Presidency Banks, has also been considered. Various suggestions have from time to time been made with this object by the Directors of the Presidency Banks and by the Chambers

of Commerce, but the discussion has now reached a stage at which the Government of India think that the formulating of a definite programme by the Banks is desirable, so that Government may be prepared to make specific proposals to the Secretary of State. I am therefore directed to ask you to draw up a brief statement of the measures which your Directors recommend in the way of removing the restrictions imposed by the Presidency Banks Act on the operations of the Banks.

3. A statement is annexed to this letter, in the first column of which a summary is given of the requests that have already been preferred by the Banks. In the second column of Remarks an indication is given of some of the objections which it has been thought that it would be necessary to meet, and it is suggested that the Directors of the Presidency Banks might facilitate the decisions of Government by pointing out how such objections or others of like nature might, in their opinion, be satisfactorily met. For instance, the remarks against the first proposal in the annexed statement indicate some of the objections which have been suggested regarding borrowing in the United Kingdom by the Presidency Banks, and His Excellency wishes to receive the views of the Directors as to the precautions which they would recommend to obviate such objections.

4. If the Directors have any further proposals to make, I am to ask that they may now be brought forward and dealt with on similar lines.

| Demands of Presidency Banks. | Remarks. |
|---|---|
| I.—Permission to borrow in the United Kingdom. | One objection to this was that it would involve the Banks in dealings in foreign exchanges, a class of business which the Bank of England does not transact. and which is not banking, but speculative commercial business. So far as this objection related to *large* fluctuations in the rate of exchange, it has now been removed by the fixing of exchange at 1*s.* 4*d.*, and the element of speculation is much reduced.<br>A second objection was that the concession of a power of creating a foreign agency in England, such as would be the result of entering into loan transactions of the nature of those now contemplated, would admit of the Banks locking up a large portion of their capital at so great a distance as to render it practically unavailable in the case of any emergency arising in India. Possibly the Banks may be able to show that this result would not ensue.<br>A third was that the position of the Banks should be strengthened by an increase of capital before they could safely be allowed resort to the London market.<br>A fourth was that while access to London might be given to one amalgamated Bank, it could not be given conveniently to three separate Banks.<br>Also precautions to be taken to prevent undesirable influences affecting the sale of Council Bills. |
| II.—Permission to deal in—<br>(*a*) Securities of State-aided Railways.<br>(*b*) Securities issued by District Boards with the authority of Government.<br>(*c*) Ceylon Government securities (Bank of Madras). | It might be desirable to fix a limit of proportion of assets to be so invested, and perhaps to limit to investment in debenture stock. |
| III.—Extension of the period for making advances to six months. | Class of advances on which extension might be admitted would require to be defined. |
| IV.—Increase of the limit for overdrafts without security from Rs. 2,000 to Rs. 5,000. | |
| V.—Right to loans, either from the Reserve Treasury or from the Paper Currency Reserve, at the current rates for demand loans on Government paper. | Danger of depleting Government balances. |

Enclosure No. 2.

Dated 9th March 1901.

From W. D. Cruickshank, Esq., Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge the receipt of your letter No. 474A., dated 28th January, in which you inform me that the Government of India have still under their consideration the question of the establishment of a Central Bank, on which question it is anticipated that they will shortly be able to make definite proposals to the Secretary of State.

You further inform me that, at the same time, the question of increasing the general banking facilities by extending the operations of the Presidency Banks has also been considered, and that the discussion of the various suggestions which have been put forward with this object from time to time has now reached a stage at which the Government of India think that the formulating of a definite programme by the Banks is desirable, so that the Government of India may be prepared to make specific proposals to the Secretary of State on the subject.

In conclusion, you intimate that if the Directors have any further proposals to make you are to ask that they may now be brought forward.

With regard to the question of the establishment of a Central Bank by the amalgamation of the three Presidency Banks, I am desired by my Directors to inform you that their attitude with regard to it has not undergone any change since I addressed you on the subject in my letter of 2nd December 1899 (*see* page 365). My Directors are still prepared to give respectful consideration to a scheme for amalgamation calculated to meet all reasonable requirements of Government and the Public, and to recommend it to the proprietors provided that sufficient inducements are offered, and that the general conditions are such as may be accepted with safety and with due regard to the Bank's interests.

My Directors are glad to learn that the various suggestions that have been made from to time with the view of increasing the general banking facilities by extending the operations of the Presidency Banks have also been considered, and that the Government of India desire to be prepared to make specific proposals to the Secretary of State regarding them. Under their instructions I have prepared, and now forward herewith, a statement showing (1) the requests that have already been preferred by the Banks; (2) the objections which it is suggested they should meet; and (3) the replies of my Directors to such objections.

I hope to be able to address you shortly regarding further proposals which the Directors have now under consideration.

## BANK OF BENGAL, CALCUTTA, 9TH MARCH 1901.

*Summary of the requests which have been preferred by the Presidency Banks with a view to the amendment of the Presidency Banks Act, the objections to be met, and the Bank of Bengal's replies to these objections.*

| Demands of Presidency Banks. | Objections. | Replies to Objections. |
|---|---|---|
| 1.—Permission to borrow in the United Kingdom. | One objection to this was that it would involve the Banks in dealings in foreign exchanges, a class of business which the Bank of England does not transact, and which is not banking, but speculative commercial business. So far as this objection is related to *large* fluctuations in the rate of exchange, it has now been removed by the fixing of exchange at 1*s.* 4*d.* and the element of speculation is much reduced. | I am instructed by my Directors to reply as follows :—<br><br>The restrictions imposed by law on the Bank of England, as far as the Directors are aware, are confined to the Note Issue Department, no legal restrictions being placed on its banking business. During the Baring crisis, it is believed, the Bank of England borrowed largely from the Bank of France, and had dealings in foreign exchanges in connection with that transaction. |
| The petition of the Presidency Banks was as follows :—<br><br>Your memorialists therefore humbly pray that the Presidency Banks Act (XI. of 1876) may be amended, and that distinct and definite powers may, by the amending enactment, be given to such Banks—<br><br>1*st.*—To borrow money, either in India or England, by pledge of assets or otherwise, and on such terms as to repayment, interest, &c., as the said Banks may from time to time arrange.<br>2*nd.*—To make remittances by Bills of Exchange or otherwise, as may seem expedient, to England in payment of the price of stock or other authorised investments from time to time purchased or acquired for the Banks in England, and also in repayment of loans arranged for there. | - - - - | The Government of India recognise that, so far as this objection relates to *large* fluctuations in the rate of Indian exchange, it has now been removed by the fixing of exchange at 1*s.* 4*d.*, and that the element of speculation is much reduced. As regards small fluctuations, I am to point out that the maximum exchange risk on a loan operation would be the cost of importing sovereigns into India from London and the cost of returning them, assuming that they could be obtained in India at Rs. 15 each as at present. At the present rate of freight by steamer this would amount to 1·3 per cent., or 5·27 per cent., per annum on a loan for three months in addition to the loss of interest while the sovereigns were in transit both ways—the interest charge in London would of course have to be added. But in ordinary circumstance more economical means of remittance would be found—outwards, in the shape of Secretary of State's Council Bills and Wire Transfers, against (1) the Treasury balances of the Government of India, and (2) the Paper Currency Reserve under Act VIII. of 1900, and, homewards, in the shape of Telegraphic Transfers of the Exchange Banks. As the Directors of the Bank of Madras say "it is "now an easy matter to avoid any exchange risk "by the simple expedient of fixing the rate both "ways at the time the transaction is entered into." The risk, however, is a matter which mainly concerns the Banks themselves, and they may well be left to make the most economical arrangements that may be open to them. |

| Demands of Presidency Banks. | Objections. | Replies to Objections. |
|---|---|---|
| I.—Permission to borrow in the United Kingdom—*cont.*<br>Of these, the 2nd may be subdivided thus :—<br>1*st*—Remittances in repayment of loans.<br>2*nd*.—Remittances in payment of authorised investments purchased. | A second objection was that the concession of a power of creating a foreign agency in England, such as would be the result of entering into loan transaction of the nature of those now contemplated, would admit of the Banks locking up a large portion of their capital at so great a distance as to render it practically unavailable in the case of any emergency arising in India. Possibly the Banks may be able to show that this result would not ensue. | In the memorial of the Presidency Banks a request is preferred that power may be given to them to make remittances to England for the two distinct purposes specified in the margin. These are dealt with separately.<br>(1) As to the power to make remittances to England in repayment of loans arranged for there—<br>The concession of this power, it is respectively submitted, would *not* involve a lock up of capital at so great a distance as to render it practically unavailable in the case of any emergency arising in India. All money borrowed by the Banks in London would be immediately remitted for employment in India, and would be returned when no longer required. The Directors of the Bank of Bengal have never contemplated creating any agency in England beyond that of the Bank's own Bankers—the Bank of England and Messrs. Coutts & Co.<br>(2) As to the power to make remittances in payment of the price of stock or other authorised investments from time to time purchased or acquired for the Banks in England—<br>It was preferred with the object of correcting an inconsistency in the Presidency Banks Act. By section 36 (*a*) (1) the Banks are authorised to advance and lend money and open cash credits upon the security of "promissory notes, debentures, stock and other securities of the Government of India, or of *the United Kingdom of Great Britain and Ireland*," and, by clause (*d*) of the same section, to invest the funds of the Banks in any of the securities specified in clause (*a*) (1). But by section 36, clauses (*l*) and (*m*), the power of the Banks (1) to draw Bills of Exchange, and (2) to buy Bills of Exchange payable out of India, is strictly limited to transactions entered into under the orders of and at the risk of principals in the agency departments of the Banks.<br>The power to invest in securities of the United Kingdom granted by clauses (*a*) (1) and (*d*) is thus apparently rendered inoperative, because clauses (*l*) and (*m*) do not authorise the operations necessary for an effective exercise of that power. The Directors of the Bank of Bengal are of opinion that this defect in the Presidency Banks Act should be remedied, and also that it should be made perfectly clear that the Presidency Banks are authorised to make remittances by Bills of Exchange or otherwise, as may seem expedient, in payment of the price of stock or other securities purchased by the Banks in England, through their agents on account of, and under orders from, principals in this country. |
| | A third objection was that the position of the Banks should be strengthened by an increase of capital before they could safely be allowed resort to the London market. | The Directors of the Presidency Banks have already represented to the Government of India that the capital of the Banks is sufficient for the present requirements of their business; that the resources of the Banks have largely increased, and can be further increased by the encouragement of fixed deposits; and that all that the Banks and the money markets of India now require is a final resort for money. The Banks are unanimous on this point, and so are the Chambers of Commerce who were consulted by the Government of India on this subject. The use of the word "safely" in the objection is not apparent; whatever risk, if any, there may be in a loan transaction lies with the lender, not with the borrower, and the Presidency Banks would not be subjected to any risk other than of that making proper arrangements for repayment at the time they borrow. |

| Demands of Presidency Banks. | Objections. | Replies to Objections. |
|---|---|---|
| I.—Permission to borrow in the United Kingdom—*cont.* | | I am to add that the Capital and Reserve of the Presidency Banks are already larger in proportion to the liabilities of the Banks than the Capital and Reserves of the Bank of England and other leading Banks at home, as shown by the figures given below, and the directors apprehend that any considerable increase of capital by the Presidency Banks might possibly, in an easy money market, have a far greater adverse influence on the sale of Council Bills than any casual borrowing transactions in London would be likely to have :— |

| Name of Bank. | Date of Balance Sheet. | Capital paid up. | Reserve Fund. | Deposits Current Accounts and Note Circulation (where it exists). | Proportion percentage of Capital and Reserve to Deposits, &c. |
|---|---|---|---|---|---|
| | | £ | £ | £ | % |
| Bank of England* - - | 6.2.1901 | 14,553,000 | 3,520,000 | 76,083,000 | 23·7 |
| Bank of Ireland - - | 30.6.1900 | 2,769,000 | 1,034,000 | 13,843,000 | 27·4 |
| National Bank, Ltd. - - | 30.6.1900 | 1,500,000 | 430,000 | 12,311,000 | 15·6 |
| Royal Bank of Scotland - | 14.10.1899 | 2,000,000 | 821,000 | 15,547,000 | 18·1 |
| Bank of Scotland - - | 28.2.1900 | 1,250,000 | 725,000 | 18,731,000 | 10·5 |
| National Provincial Bank of England, Ltd. | 30.6.1900 | 3,000,000 | 2,225,000 | 50,865,000 | 10·2 |
| London and Westminster Bank, Ltd. | 30.6.1900 | 2,800,000 | 1,600,000 | 27,967,000 | 15·7 |
| Lloyd's Bank, Ltd. - - | 30.6.1900 | 2,656,000 | 1,800,000 | 45,825,000 | 9·7 |
| Barclay & Co., Ltd. - - | 30.6.1900 | 2,328,000 | 1,000,000 | 33,274,000 | 10·0 |
| London City and Midland Bank, Ltd. - - | 30.6.1900 | 2,202,000 | 2,202,000 | 35,665,000 | 12·3 |
| London and County Bank, Ltd. | 30.6.1900 | 2,000,000 | 1,500,000 | 47,307,000 | 7·3 |
| | | Rs. | Rs. | Rs. | |
| Bank of Bengal - - | 19.2.1901 | 2,00,00,000 | 1,03,50,000 | 7,68,07,000 | 39·3 |
| Bank of Bombay - - | 23.2.1901 | 1,00,00,000 | 70,00,000 | 6,09,09,000 | 27·8 |
| Bank of Madras - - | 23.2.1901 | 60,00,000 | 22,00,000 | 3,31,61,000 | 24·7 |
| | | £ | £ | £ | % |
| *Bank of England taking "Note Circulation" as £17,775,000 (the amount of notes issued against securities. | 6.2.1901 | 14,553,000 | 3,520,000 | 64,970,000 | 27·8 |

| | |
|---|---|
| A fourth objection was that while access to London might be given to one amalgamated Bank, it could not be given conveniently to three separate Banks. | This objection appears to be merely an argument in support of the proposal that the Presidency Banks should be amalgamated before access to the London market is allowed. It is not shown how or to whom inconvenience would be caused by giving access to three separate Banks, a simple amendment of the Presidency Banks Act being all that is necessary for the purpose. The Directors of the Bank of Bengal are of opinion that borrowing on the part of the Banks in London would not be of more frequent occurrence than borrowing from the Government of India has been in the past, and that it will still be possible for Government to regulate these borrowings so as to prevent interference with the sale of Council Bills. It has been urged that Government might influence the operations of one Bank, but not easily those of three Banks; the difficulty, it is submitted, would be overcome if the Banks undertook to report their London borrowings, and if that were done, the position would be that, by permitting such borrowings, the Government would avoid applications for loans from their balances at inconvenient times. It will, however, be the settled policy of the Bank of Bengal to avoid borrowing out of India. At the same time, a last resort for money is admitted on all sides, and by the Government of India themselves, to be desirable, if not absolutely necessary. |

| Demands of Presidency Banks. | Objections. | Replies to Objections. |
|---|---|---|
| I.—Permission to borrow in the United Kingdom.—*cont.* | Also precautions to be taken to prevent undesirable influences affecting the sale of Council Bills. | I am to point out that there are several ways of making remittances from England to India and *vice versâ*, as shown in the replies to the first of these objections. They think this objection would be met by an undertaking on the part of the Banks to consult the convenience of the Government of India in every case, and make all their arrangements for such remittances subject to the approval of the Comptroller General. |
| * * | * * | * * * * * * |
| III.—Extension of the period for making advances to six months. | Class of advances on which extension might be admitted would require to be defined. | The Directors are of opinion that if the extension is conceded, it should not be limited to any particular class of advances. They believe the concession would be beneficial as calculated to promote authorised transactions which necessarily contemplate a longer period than three months, but at present can only be arranged by renewals of loans for the shorter period.<br><br>This is another restriction which has not been deemed necessary in the case of the Bank of England, and it has already been relaxed in the case of the Bank of Madras in regard to Ceylon. |
| IV.—Increase of the limit for overdrafts without security from Rs.2,000 to Rs.5,000. | - - - | This is a restriction which the Directors would like to see removed. It has been explained that the limitation was fixed to allow of an accidental overdraft. But when it is borne in mind that sums to the extent of six lakhs of rupees can be advanced on mere personal security, it does seem unnecessary to provide that the directors may not sanction a temporary overdraft to a constituent of undoubted wealth, holding in deposit with the Bank securities worth many times the amount of the overdraft.<br><br>Whether such securities constitute authorised investments at the Bank or not, the Bank's lien would attach to them, and it is submitted that the object of the restriction would be best secured by a bye-law giving the Directors a reasonable discretion in such cases. |
| V.—Right to loans, either from the Reserve Treasury or from the Paper Currency Reserve, at the current rates for demand loans on Government paper. | Danger of depleting Government balances. | My Directors desire me to say that, in the event of access to London being granted to the Bank, they will be satisfied with a general understanding that loans from the Reserve Treasury or Paper Currency Reserve may be granted only when convenient to Government. They will not ask for any definite assurance or for an open credit to operate on, but they submit that the Presidency Banks should not be denied short accommodation in this form at times when those reserves are sufficiently large to admit of the Secretary of State granting, at special rates, Wire Transfers on India instead of, or in addition to, the weekly sales of Council Bills. |

W. D. CRUICKSHANK,
Secretary and Treasurer, Bank of Bengal.

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Enclosure No. 3.

Dated 22nd March 1901.

From J. Begbie, Esq., Secretary and Treasurer, Bank of Bombay, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 474-A, dated 28th January last, stating that the Government of India have still

under their consideration the question of the establishment of a Central Bank, on which question it is anticipated that Government will shortly be able to make definite proposals to the Secretary of State. The letter also states that, at the same time, the question of increasing the general banking facilities by extending the operations of the Presidency Banks has also been considered, and asks (1) that a brief statement may be drawn up of the measures which the Directors recommend in the way of removing the restrictions imposed by the Presidency Banks Act; (2) suggests that the Directors might facilitate the decisions of Government by pointing out how the objections raised to previous proposals, or other objections of a like nature, might, in their opinion, be satisfactorily met, adding that his Excellency wishes to receive the views of the Directors as to the precautions which they would recommend to obviate such objections; and (3) invites the Directors to bring forward any further proposals they have to make.

In reply I am instructed to say that the Directors, in their letter, dated 21st December 1899 (*see* page 388), to the Government of Bombay, intimated that they were prepared to consider fully and favourably any proposals which Government might make to them, with a view to the establishment of a Central Bank by the amalgamation of the Presidency Banks. They are still ready to give due and respectful consideration to any scheme which may be submitted to them.

With regard to the other contents of your letter, the Directors are greatly obliged for the opportunity now afforded them of replying to the objections brought forward in your letter to the proposals previously made.

The first proposal is that permission should be granted to the Banks to borrow in the United Kingdom, to which five objections are mentioned:—

The first is that borrowing in the United Kingdom "would involve the "Banks in dealings in foreign exchanges, a class of business which the "Bank of England does not transact, and which is not banking, but "speculative commercial business." It is added that, "so far as this "objection is related to *large* fluctuations in the rate of exchange, it has "now been removed by the fixing of exchange at 1*s.* 4*d.*, and the element "of speculation is much reduced." In reply I have to say that the Directors have been unable to ascertain that any restrictions are imposed by the Legislature on the general banking business of the Bank of England. The English Bank Act is an Act to regulate the issue of Bank notes, and has reference only to the note issue. The Directors are not aware that the Bank of England is not permitted to borrow out of the United Kingdom. On the contrary, it is well known that the Bank borrowed a large sum from the Bank of France at the time of what is known as the "Baring crisis." So far, therefore, as the example of the Bank of England is concerned, it supports the claim of the Presidency Banks for authority to borrow out of India. With respect to that part of the objection, which implies danger in dealing in foreign exchanges, the Directors beg to remark that ordinary operations in the exchange with England, such as the Banks would undertake if they borrowed in London, are based on the return which the transactions will yield, and cannot correctly be termed speculative business. The risk involved would be no greater than that which enters into ordinary banking transactions. There would be only the usual banking risk of the sufficiency of the companies or corporations dealt with to retire their bills or fulfil their contracts. The danger of loss by reason of the variations in the rate of exchange is greatly minimised now that the sterling exchange is fixed and the fluctuations in the rate confined within narrow limits. So long as exchange is fixed and gold obtainable for export, the maximum cost of borrowing and repayment operations could always be definitely ascertained before the transactions were entered into. There does not, therefore, appear to the Directors to be any necessity for taking any special precautions in connection with borrowing in London and the consequent transactions in the foreign exchanges. Further, the Directors desire to say, with all due respect, that no comparison can usefully be drawn between the Bank of England and the Presidency Banks. The former has charge of the note issue, while the latter have no power to issue currency notes. Again, the whole of the banking reserves in the United Kingdom are focussed in the reserve of the Bank of England, while in India a large

proportion of the monetary resources of the country do not form a part of the reserves of the Banks; and, further, a high Bank rate in India has not hitherto attracted foreign capital as a high Bank rate in England does.

The second objection is "that the concession of a power of creating a "foreign agency in England, such as would be the result of entering into "loan transactions of the nature of those now contemplated, would admit "of the Banks locking up a large portion of their capital at so great a "distance as to render it practically unavailable in the case of any "emergency arising in India." In reply thereto the Directors desire to point out that the only way in which a Bank can lock up any part of its capital is by investing in securities which are not liquid or readily convertible into cash. Borrowing could not lock up the Banks' funds, and additional power to invest in English securities has not been applied for. The establishment of a foreign agency, therefore, would not admit, as supposed, of the Banks locking up capital so long as the powers of the Banks at the agency were not extended to include greater investing power in English securities than they now possess.

The third objection is "that the position of the Banks should be "strengthened by an increase of capital before they could safely be allowed "resort to the London market." The danger implied in this objection seems to the Directors to be non-existent. No reason is given for requiring an increase of capital before permitting the Banks to open in London as desired. The danger implied is not defined, and the Directors regret they are unable to discern wherein it lies. There seems to them to be no good reason for requiring additional capital before enabling them to borrow in London, seeing they already have the power of borrowing in India without supplying further capital. In order to borrow in London against security additional capital would not be necessary. The Banks could pledge Government of India or other authorised public securities. No danger to the Banks would attend an operation of that nature, and no further capital would be necessary. With regard to borrowing without the pledge of securities, that is, receiving deposits, the Directors consider that they should be able to collect a much larger sum than they have been able to gather hitherto without any addition to the Bank's existing capital, especially in view of the large Reserve Fund which they have accumulated and to which it is their intention to add as opportunity offers. The Reserve Fund, equally with the Bank's Capital, is the ultimate security offered by the Bank to depositors against loss. The percentage of the Capital and Reserve Funds of the three Banks to the total of their deposits compares favourably with the percentage which the paid-up Capital and Reserve Funds of the large English Banks bear to their deposits. No additional shareholders' capital, therefore, appears to be required. In the event of a large accession of deposits, it might become necessary to increase the capital to provide better security to the depositors, and the Directors would not hesitate to recommend that course if it proved to be really needed. But the usual and natural course is to increase the capital after it is required. The increase should follow, and not precede, an augmentation of deposits.

The fourth objection is "that while access to London might be given "to one amalgamated Bank, it could not be given conveniently to three "separate Banks." The Directors regret they are unable to appreciate the weight of this objection. They do not believe that any inconvenience would be felt; and they consider that in any case a matter of convenience should not be permitted to stand in the way of an important and necessary addition to the resources of the money market. So far as borrowing against the pledge of securities is concerned, the amount could not be very large at one time. Borrowing against securities would not increase the amount of the Banks' investments. It would probably enable the Banks to hold larger permanent investments in Government securities. But it would not add to the total amount of money employed by them. On the other hand, power to borrow in London without the pledge of securities, that is, receiving deposits, would place more lendable capital in their hands and would enable them to add to their investments of all kinds. The Directors are unable to see in what way this would be inconvenient.

The precautions to be taken to prevent undesirable influences affecting the sale of Council Bills remain to be considered. Bringing to India the proceeds of loans raised in London and returning the money in payment of the loans would not affect the total sales of Council Bills. The operation of remitting the money to India would increase the demand for drafts on this country, while the reverse movement would lessen the demand for the bills to exactly the same extent as bringing the money to India increased the demand. In this connection the Directors desire to mention that other Banks and the public generally have means at their disposal for obtaining loans in London and bringing the money to India. Large operations of this kind frequently occur without producing any appreciable effect on the sales of Council Bills. Loans to the Presidency Banks would not materially increase this class of business. On the contrary, they would probably take the place, to some extent, of other loans now arranged by the public direct. The Directors do not think that any danger exists of the business mentioned injuriously affecting the Government remittances.

I have to add that permission to borrow in London would require to be accompanied by authority to remit money to and from London by Bills of Exchange or otherwise, as might be expedient.

Before leaving this question of the grant of authority to raise funds in the United Kingdom, the Directors desire to impress on Government their strong conviction that such authority is most necessary in the interests of the trade and credit of the country, as well as the Banks themselves. Under existing conditions in India there are at times no reliable means of converting even the best of investments into cash readily. The authority sought for would by no means be a perfect remedy for the dangers of the existing position. But every means of minimising those dangers should be placed within reach of the Banks; and the Directors, therefore, respectfully but firmly urge Government to amend and enlarge the Act as applied for.

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The third proposal is to extend the period for making advances to six months. The Directors think the period might be extended to twelve months in the case of advances against Government and other authorised public securities, and also against goods deposited with the Banks; but they think the limit of three months should be retained in the case of advances and discounts when the security is of a personal nature.

The Directors think that the proposal, that the limit for overdrafts without security should be increased from Rs. 2,000 to Rs. 5,000, might be adopted with safety.

The last proposal is the "right to loans, either from the Reserve "Treasury or from the Paper Currency Reserve, at the currect rates for "demand loans on Government paper" and its accompanying remark indicating the danger of depleting Government balances.

So far as loans from the Paper Currency Reserves are concerned, the Directors are of opinion that until currency notes are more widely acceptable to the public for currency purposes than they now are, it would not be altogether safe to rely upon them.

With regard to loans from the Reserve Treasury, while not claiming an actual right to them, the Directors respectfully maintain that in the interests of trade and of the monetary position generally, the Treasury surplus balances should be placed at the disposal of the Banks whenever possible. The Directors do not suggest that such loans should be given when inconvenience would be caused to Government, but they think that there are frequent occasions when the balances could be made available to trade without risk of undue depletion. In the event, however, of a serious emergency arising, and especially when the state of credit is bad and likely to lead to serious embarrassment, the Treasury balances should be used freely to restore confidence. With money in their vaults during a crisis, arising from loss of credit, Government could hardly, the Directors think, withhold assistance if it was wanted.

With respect to the question of the rate of interest to be charged for loans, the Directors think that, if the rate is to be settled in advance, it should be at a fixed percentage below the official Bank rate to enable the

Banks to compensate themselves to a small extent for the risks they would incur in lending the money. They prefer that the rate should be subject to arrangement at the time each loan is given or required. If loans are given because the money is available for temporary employment and to assist trade, the rate should be a fixed percentage under the official Bank rate.

Up to this point the Directors have dealt only with the situation placed before them in the letter under reply, which has reference only to the extension of the business in which the Banks may engage. They desire, however, to add that in their opinion the general monetary position in India should be taken into account in considering the means that should be adopted for the improvement of the banking facilities and money market in India. They humbly submit that, besides the extension of the operations of the Banks, which is under discussion, much assistance could be rendered with the monetary resources of Government. They would point to what they regret they must consider a wasteful policy in the entire withdrawal of more of the Government balances from the money market than is really necessary. The methods followed by Government in managing their Treasury balances and the reasons therefor are well known and need not be recapitulated here. But I am instructed to say that the reasons assigned for the creation of the system of Reserve Treasuries are not conclusive, and, in any event, the same result, so far as Government are concerned, could be obtained without adopting the policy referred to. The Directors suggest, for the earnest consideration of Government, the desirability of closing the Reserve Treasuries and reverting to the system of depositing the surplus Treasury balances with the Banks, imposing on the latter the condition that all the surplus balances thus deposited, that is, all Government funds in addition to those now placed with them, should not be employed in the Banks' ordinary business, but be held as cash in addition to the cash reserves which they now hold. The advantages of following this proposal would be that, while the Government could rely on their cash balances with as much confidence as they now do, and although it would not benefit the Banks or trade, it would have an important effect by bringing a large section of the monetary resources of the country into view in a more prominent way than is now the case, and would tend to attract foreign capital more powerfully when rates of interest are favourable. The Directors regard it as unfortunate that the whole of the monetary resources of India are not represented through the medium of the Banks established in the country, as is the case in England and elsewhere. Apart from the currency note reserves, the Government surplus cash balances, and most of the cash resources of the bazars, do not enter into the composition of the balance sheet of any Bank. Competent authorities point to the division of the bullion reserve in the Bank of England into two parts for a principal reason for the more numerous fluctuations in the rates of interest and discount in England than occurs in France or Germany, where the note reserves are not separated from the ordinary banking reserves. In England both reserves are held by one institution, and yet a serious disadvantage appears to be experienced. How much greater, therefore, must the disadvantage be in India where the different reserves of the country are scattered as they are, and to which must be added the additional disadvantage of an isolated and distant position from the great money markets of Europe! It is a slow process to get the monied classes in India outside of the large cities to become depositors with the Banks. But the Directors have no hesitation in recommending that the Government surplus balances should be dealt with in a way more in keeping with the practice in England by depositing them with the three Presidency Banks, even if it should be with the condition that all fresh deposits are not to be used in the Banks' ordinary business. Still another important result would be, if the proposal was properly carried out, to lessen the great fluctuations in the cash reserves of the Bank. As is well known, the cash balances of the Banks usually fall to their lowest point at the time the Government balances are rising, and *vice versâ*. A combination of the two would, therefore, tend to prevent the severe fluctuations which take place under the existing conditions. Much of the criticism in England, which has been directed at the Presidency

Banks, seems to the Directors to have originated from mistaken ideas caused by omitting to take into account the monetary position in India outside the sphere of the Banks.

The Directors are further of opinion that, in pursuance of the resolution of Government to place at the disposal of trade during a portion of the year a part of their surplus balances, when available, the money should be offered to the Banks. At present the market has no means of knowing whether any Government funds are available or not, with the result that there is unwillingness to apply for accommodation unless the pressure is extreme and cannot be met otherwise. The Directors, therefore, respectfully suggest that Government should intimate publicly or to the Banks that funds are available, giving particulars of the amount and the period for which it can be obtained.

Lastly, the Directors suggest that the method of effecting the Government remittances to England by the sale in London of Council Bills should be changed and the remittances be carried out from this side through the Presidency Banks. They consider that the evidence on the point given before the late Currency Committee strongly supports them in making this suggestion. Council Bill sales meet the requirements of the export trade chiefly, although in the opinion of the Directors it would be more effectively met if their recommendation was carried out. They are, however, more concerned with and interested in the internal trade, and experience shows that that trade is assisted by the release of Government funds through the sale of Council Bills only in a tardy and circuitous manner. If the remittances are initiated in India, the money would be released for the benefit of local trade far more expeditiously than under the existing system.

The points upon which the Directors lay most stress for effecting an improvement in the general monetary situation in India are :—

(*a*) The concession to the Banks of borrowing powers in the United Kingdom with the necessary authority to remit to and from India.

(*b*) The deposit with the Banks of the Government cash balances as far as possible, the surplus balances being merely held in custody as above explained, except when expressly made available for trade purposes by Government.

(*c*) The offer by Government of their surplus funds for the use of the market whenever available.

(*d*) The Government Home remittances to be effected through the Presidency Banks.

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Enclosure No. 4.

Dated the 2nd April 1901.

From G. D. Ker, Esq., Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter, No. 474A., of 28th January 1901, intimating that the Government of India have still under their consideration the question of the establishment of a Central Bank, on which question it is anticipated that the Government of India will shortly be able to make definite proposals to the Secretary of State.

I am desired by my directors to say that they will give respectful consideration to any proposals which may be submitted to them by Government in this connection.

2. Your letter further intimates that the question of increasing the general banking facilities by extending the operations of the Presidency Banks has also been considered, and that the Government of India thinks that the discussion has now reached a stage at which the formulating of a definite programme by the Banks is desirable.

A statement is annexed to your letter in which a summary is given of the requests that have already been preferred by the Banks, and of some of the objections which have been raised thereto, and it is suggested

that the Directors should point out how such objections (or others of like nature) might, in their opinion, be satisfactorily met. My Directors will therefore reply to these questions *seriatim*.

3. *Permission to borrow in the United Kingdom.*

(*a*) The first objection raised to this proposal is that it would involve the Banks in dealing in foreign exchanges, which is not banking, but speculative commercial business.

My Directors submit that this is an altogether fallacious view. The British sovereign is now legal tender in India, and it is not understood how borrowing in the legal tender coin of the country can possibly be interpreted as dealings in foreign exchanges, or as speculative commercial business.

The fluctuations in the rate of exchange between India and London are now fixed within well-defined limits, and, as has already been pointed out in this Bank's letter of 13th November 1899, it is now an easy matter to avoid any exchange risk by fixing the rate both ways at the time a transaction is entered into.

My Directors, therefore, submit that this objection has no force, and that the borrowing of money, as indicated, is a legitimate banking transaction.

(*b*) The second objection raised is that the concession of creating a foreign agency in England, such as would be the result of entering into loan transactions of the nature of those now contemplated, would admit of the Banks locking up a large portion of their capital at so great a distance as to render it practically unavailable in the case of any emergency arising in India.

My Directors are at a loss to understand this objection, which they respectfully submit is entirely irrelevant.

The Banks have not asked for power to lend money in the United Kingdom, but to borrow money ; and money borrowed so far from being a lock-up of capital in England would supply fresh capital for the requirements of trade in this country.

With regard to the creating of a foreign agency in England, my Directors desire to state that they have no intention of disturbing existing arrangements, whereby the Bank of England performs this Bank's agency business in that country.

(*c*) The third objection raised is that the position of the Banks should be strengthened by an increase of capital before they can safely be allowed to resort to the London market.

In the absence of any reasons in support of this objection, my Directors can only say that the present Capital of the Bank of Madras is ample for present requirements, and that it would not be in the interests of the shareholders to further increase the Capital under existing conditions.

My Directors do not consider that there is any risk in giving the Banks power to borrow in London, and they cannot, therefore, see the force of the remark that an increase of Capital is necessary before the Banks can *safely* be allowed this concession.

(*d*) Nor can my Directors understand the objection that while access to London might be given to one amalgamated Bank, it could not be given conveniently to three separate Banks.

If a final resort be necessary (and the necessity for this has been admitted on all sides), it seems to my Directors that the question should be dealt with on its merits, apart altogether from the question of amalgamation.

(*e*) Precautions to be taken to prevent undesirable influences affecting the sale of Council Bills.

It is not clear to my Directors how permission to the Presidency Banks to borrow in London can prejudicially affect the sale of Council Bills. When money is borrowed, it would probably as a rule be remitted to India by means of Council Bills or Telegraph Transfers, and when repayment is made Bills of Exchange or Transfers would be purchased by the Banks on this side for a similar amount, so that on balance the total sales of Council Bills would be unaffected.

* * * * * * * *

5. *Extension of the period for making advances to six months.*

It is remarked that the class of advances on which extension might be admitted would require to be defined.

This is hardly practicable, for each case would have to be considered on its merits; but as an instance in point, I am desired to say that advances made for the purchase of coffee, which has to undergo a process of curing, &c., before shipment, can often not be repaid within four or five months, and the Bank has accordingly to grant renewals of the three months' bills now discounted for this business. It is to obviate the necessity for such renewals that power is asked to discount bills up to a maximum of six months.

6. *Increase of the limit for overdrafts without security from Rs.* 2,000 *to Rs.* 5,000.

My Directors submit that it is anomalous that while the Bank has power to advance on two approved names up to a limit of Rs. 5,00,000 (*vide* Byelaw No. 1), it should not be permitted to advance without security more than Rs. 2,000 to a constituent, however wealthy he may be. This disability has hampered the Bank considerably and has led to the loss of much good business.

My Directors would like to see this section eliminated from the Act altogether, and made the subject of a byelaw, as in the case of advances on two approved names.

7. *Right to loans, either from the Reserve Treasury or from the Paper Currency Reserve, at the current rates for demand loans on Government paper.*

*Objection raised.*—Danger of depleting Government balances.

My Directors recognise that no *definite* undertaking can be given to the Banks, and would be satisfied with an assurance that assistance will be granted from either of these sources when convenient to Government, provided the final resort to the London market is open to the Banks.

As regards the rate of interest to be charged on such advances, my Directors respectfully submit that it should not be higher than 2 per cent. below the Banks' minimum rate for the time being, which would be a considerably higher rate than that at which the Banks could borrow in the London market under ordinary circumstances, and would leave no more than a fair margin of profit to the Banks.

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Enclosure No. 5.

Dated the 18th April 1901.

From W. D. Cruickshank, Esq., Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance and Commerce Department.

In continuation of my letter of 9th ultimo, I am desired by the Directors of the Bank to submit, for the consideration of the Government of India, the following suggestions for the amendment of the Presidency Banks Act:—

## CHAPTER III.

### CAPITAL.

*Section* 13.—"*The proprietors and shareholders of the Bank may from time to time by special resolution, and with the previous sanction of the Governor-General in Council, increase or reduce the capital of the Bank.*"

*Section* 14.—"*Provided that the capital shall not exceed, in the case of the Bank of Bengal, thirty millions of rupees.*"

My Directors consider this proviso to be unnecessary, and suggest that it should be struck out. It is true that the previous Act, No. IV. of 1862, by section 6 placed a limit on the Bank's capital, but when, in 1876, the Government decided to withdraw from the direction of the Bank and to sell their shares, the relations between the Bank and Government were modified,

and as regards banking business, the responsibility of the Bank to the Government became the same as the ordinary one of a banker to his customer.

My Directors think that the shareholders ought to have power to increase the Bank's capital whenever and to whatever extent they may consider it desirable. They have no thought of reducing the capital.

*Power to take over Capital and Business of any other Bank.*

The power of taking over the capital and business of any other Bank in India, which was expressly conferred on the Bank by section 37 of Act IV. of 1862, should be restored. No explanation of the repeal of the section appears to have been placed on record. In extending the Bank's operations in fields where Banks already exist, it might be found advantageous to enter into arrangements which are not expressly sanctioned by the present Act.

Section 37 of Act IV. of 1862 was as follows :—

> "It shall be lawful for the Directors of the said Bank, from time to time, to enter into negotiations for and to purchase and take over the capital, assets, and business of any other Bank within Her Majesty's Indian territories, of which the capital is divided into shares, and to grant and allot to the shareholders or proprietors in such Bank in full of their respective right, title, and interest in such capital, assets, and business, a sufficient number of shares in the capital stock of the said Bank of Bengal (which number shall be determined by the Directors), and for that purpose to increase the capital stock of the said Bank by the issue of such number of shares as may be so determined on. The shareholders or proprietors of the purchased Bank to whom such new shares shall be allotted shall be proprietors of the Bank of Bengal, and be in all respects in the same position as if they had respectively subscribed and paid for the shares so allowed to them. Provided always that the business so purchased shall, after the purchase be carried on by the said Bank of Bengal, with and subject to the several restrictions contained in this Act."

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## CHAPTER VIII.

### BUSINESS.

*Sections* 36 (a) (6).

*Section* 36.—*The Bank is authorised to carry on and transact the several kinds of business hereinafter specified (that is to say):—*

(a) "*The advancing and lending money, and opening cash credits, upon the security of*"—(6) "*accepted bills of exchange and promissory notes endorsed by the payees.*"

Loans on accepted bills of exchange and promissory notes endorsed by the payees are alone authorised.

The intention apparently is to secure the liability of two persons on the same document as principal and surety, and yet it is not clear why the Bank should not advance on the joint and several promissory note of two persons unconnected in business and without recognising one as a surety for the other.

The National Bank of Egypt has been constituted within the last three years under the approval of the Egyptian Government. They are a Bank of Issue, and their Board of Administration and London Committee are subject to the approval of the Government. Their constitution has been carefully safeguarded so as to exclude operations in land or immoveable property, while they are authorised to undertake all commercial and financial operations in Egypt, and yet no restriction as to the form of promissory notes to be accepted as security for advance is enjoined ; on the contrary,

the Bank are expressly authorised to open accounts current by way of *overdraft* for persons established in Egypt, whose credit is well known, provided the account be liquidated within *six* months.

The Directors urge that similar powers may reasonably be conferred on the Presidency Banks.

*Section* 37 (d), *Byelaw* 1.

*Section* 37 (d).—"*Nor shall they* [*except upon the security mentioned in section* 36, *paragraph* (a), *Nos.* (1) *to* (5), *inclusive*] *discount bills for any individual or partnership firm for an amount exceeding in the whole at any one time such sum as may be prescribed by the byelaws for the time being in force, or lend or advance in any way to any individual or partnership firm an amount exceeding in the whole at any one time such sum as may be so prescribed.*"

*Byelaw* 1.—"*Except upon the security mentioned in section* 36, *paragraph* (a), *Nos.* (1) *to* (5) *inclusive, of the Presidency Banks Act,* 1878, *the Directors shall not—*

"*discount bills for any individual or partnership firm for any amount exceeding in the whole at any one time the sum of Rs.* 6,00,000;

"*or lend or advance in any way to any individual or partnership firm an amount exceeding in the whole at any one time the sum of Rs.* 6,00,000."

The right to advance up to six lakhs of rupees should, in the opinion of my Directors, be made clearly irrespective of the liabilities of the borrowers to the Bank through the transactions of third parties. For example, A, B being acceptors of bills discounted by C, D, E, F, and others, for six lakhs of rupees should not be ineligible for a loan or discount on his own account.

The Bank have been advised that this is so, but, having regard to the above section of the Act and byelaw, the right to make the advance in such cases might be placed beyond question.

*Loans to Native Princes.*

Loans to Native Princes are forbidden by the Statute 37, Geo. III, Chapter 142, Section 28, unless made with the sanction of the Government of India. The undoubted object of the Statute was to prevent usury and extortion being practised upon Native Princes, and was never intended to affect *bonâ fide* transactions with a Bank, but the terms of the section are very wide and they are of a penal nature. In your letter No. 5162-A., dated Simla, 12th October 1894, you informed the Bank that the Government of India had been advised that the provisions of the Statute do not apply to loans made by incorporated Banks, but as this advice is unsupported by any binding decision, the Act should either be repealed or declared inapplicable to transactions with the Presidency Banks.

*Loans to the Court of Wards.*

Loans to the Court of Wards in respect of estates under their management might now be included in the list of authorised business. The management of such estates is now entirely under the control of responsible officers of Government of considerable experience, and all matters of importance are determined by the Commissioner or the Board of Revenue. Any application for a loan would have to be recommended by these high officials, and would only be entertained by the Bank on suitable conditions providing against an unreasonable lock-up of capital. That condition being fulfilled, the further condition of requiring the several responsibilities of two persons, as provided by section 37 (*e*) of the Presidency Banks Act, might be dispensed with in transactions of this description.

Enclosure No. 6.

No. 2265-A., dated the 28th April 1903.

From R. A. Mant, Esq., Under Secretary to Government of India, Finance and Commerce Department, to the Secretary and Treasurer, (1) Bank of Bengal, (2) Bank of Bombay, (3) Bank of Madras.

I am directed to refer to your (1) letters of the 9th March 1901 and 18th April 1901 / (2) letter of the 22nd March 1901 / (3) letter of the 2nd April 1901, in which you submitted the views of the Directors of the Bank of on the question of increasing the general banking facilities in India by extending the operations of the Presidency Banks. The various suggestions that have been put forward from time to time with this object were discussed informally in Calcutta in December last by a small committee on which the Bank of was represented. The conclusions of the committee have now been considered by the Government of India, and a memorandum has been drawn up showing the proposals which the Government of India are disposed to recommend to the Secretary of State for the amendment of the Presidency Banks Act. A copy of this memorandum is enclosed.

2. The majority of these proposals are of long standing and have already been fully discussed; but some of them are new, notably the proposal to to require the Banks to maintain a minimum proportion of cash to liabilities. Before addressing the Secretary of State, the Government of India will be glad to receive any further remarks which your Directors may desire to make on the subject.

*Proposals for the amendment of the Presidency Banks Act.*

1. *Borrowing in London.*—It is proposed to give the Banks the power to borrow in London when the bank rate in India rises above a certain point.

It is considered desirable to allow the Banks to have access to the London market at times when there is a real deficiency of loanable capital in India; and it is not intended to encourage resort to that market, as a speculative measure, in anticipation of such a deficiency. It is therefore proposed that borrowing in London should be allowed only when the Indian bank rate rises above a fixed limit. As at present advised, the Government of India consider that 7 or 8 per cent. will be a suitable figure for this limit.

It is not considered desirable that the Banks should be drawn into general banking business in London. They will not therefore be allowed to receive deposits there, and their borrowing will be restricted to the amounts which they are able to bring out to India.

In order to prevent any possible clashing with the Government arrangements for remittances, it is proposed that the arrangements to be made by the Banks for the remittance of funds to or from London should be subject to the approval of the Comptroller General or of the Government of India.

II. *Extension of the Banks' power to deal in securities.*—It is proposed that the Banks should be allowed to deal in securities issued by State-aided railways or issued by District Boards with the sanction of the Government; and that the Bank of Madras should be allowed to deal in securities of the Government of Ceylon.

III. *Extension of the period for making advances.*—It is proposed that the period for which the Banks are authorised to make advances should be extended to six months, except in the case of advances against personal security.

IV. *Increase of the limit for overdrafts.*—It is proposed that the limit of Rs. 2,000 set to overdrafts without security in section 37 of the Act should be raised to such sum not exceeding Rs. 10,000 as may be fixed by byelaw.

V. *Removal of the maximum limits of the Banks' Capital.*—Section 13 of the Act provides that the capital of the Bank shall not be raised without the previous sanction of the Governor General in Council. It is considered unnecessary to limit the power of the Government in this respect; and it is therefore proposed to repeal the proviso to section 14, which fixes a maximum limit for the capital of each Bank.

VI. *Taking over the business of other Banks.*—In times of crisis it might be an advantage to the public if the Presidency Banks were able to take over a small bank which might otherwise be compelled to close its doors. It is therefore proposed to empower the Banks to take over the business of any other bank with the previous sanction of the Government.

VII. *Advances on Joint Promissory Notes.*—Under section 36, clause (*a*), sub-clause (6), the Banks are allowed to advance money on accepted bills of exchange or promissory notes endorsed by the payees, *i.e.*, practically on the security of two names. It is thought reasonable, therefore, that they should be allowed to make advances on the joint promissory note of two or more persons.

VIII. *Loans to Courts of Wards.*—It is proposed to empower the Banks to grant such loans with the sanction of the Local Government for periods not exceeding six months.

IX. *Further control over the operations of the Banks.*—Simultaneously with the grant of the facilities indicated above, it is thought necessary to impose certain restrictions on the general conduct of the Banks. Firstly, it is proposed to require their accounts to be audited by public accountants. It is not intended to revoke the power of selection possessed by the Banks under section 47 of the Act, but merely to limit the field of selection to public accountants.

Secondly, it is proposed to require the Banks to maintain their cash balances at a safe level, and to impose a penalty when the proportion which those balances bear to the Banks' liabilities falls below a fixed minimum percentage. The Government of India are inclined to think that the minimum should not be lower than 35 per cent. It may be found possible to draw a distinction between liabilities at call and less urgent liabilities, such as savings bank deposits, which are ordinarily of a permanent character, and fixed deposits which cannot be withdrawn without notice of three months or a longer period. Any suggestions which the Banks may desire to put forward for the modification of the minimum percentage in consideration of the fixity or permanent character of the deposits will be considered.

The form of penalty which commends itself to the Government of India is the payment of a fine to the Government at so much per cent. on the deficiency of the cash balances below the minimum percentage. It would be necessary to assess the fine on an ascending scale, as the deficiency increases, in order to make it operative at times when money is in great demand. It has been suggested, therefore, that the penalty should be imposed at the following rates :—

(*a*) When the ratio of cash to liabilities is below 35 per cent., but not below 30 per cent., at 1 per cent. on the sum required to raise it to 35 per cent. ;

(*b*) When the ratio is below 30 per cent., but not below 25 per cent., at 5 per cent. on the sum required to raise it to 30 per cent. and at 1 per cent. on the further sum required to raise it to 35 per cent. ;

(*c*) When the ratio is below 25 per cent., but not below 20 per cent., at 10 per cent. on the sum required to raise it to 25 per cent., at 5 per cent. on the sum required to raise it from 25 to 30 per cent., and at 1 per cent. on the sum required to raise it further from 30 to 35 per cent. ; and so on.

The Government of India recognise that the depletion of the Banks' balances may occasionally be caused by the withdrawal of the Government deposits, over which the Banks have no control. The public deposits ordinarily exceed the minimum amount which the Government is required by agreement to leave with the Banks, and it is reasonable for the latter, in estimating their cash resources, to count on having the use of a larger sum of public money than they are entitled to under their agreements. The Government of India, therefore, propose to fix for each Bank a sum which the Bank may assume to be the normal minimum of the Government balances. If those balances fall below the sum so fixed, no penalty will be payable on the amount by which they are deficient ; and the total sum on which the penalty is assessed will thus be reduced by the extent to which the deficiency in the Banks' cash balances is caused by the shrinkage of public deposits.

The following amounts have been suggested as the normal minima for the Government balances held by the Banks:—

| | | | |
|---|---|---|---|
| In the Bank of Bengal | - | 150 lakhs. | |
| ,, ,, Bombay | - | 100 ,, | (including the Berar balances). |
| ,, ,, Madras | - | 50 ,, | ,, ,, ,, |

*Illustration.*—Suppose the liabilities of the Bank of Bengal to amount to 6 crores and the cash balances to 150 lakhs, the Government deposits being 130 lakhs. The amount required to raise the cash balances to 35 per cent. of liabilities is 60 lakhs. Before assessing a penalty, 20 lakhs should be deducted on account of the shortage of the Government deposits. The deficiency to be penalized would thus be reduced to 40 lakhs; and the penalty would be assessed at 5 per cent. on 10 lakhs plus 1 per cent. on 30 lakhs.

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## Enclosure No. 7.

### No. 151, dated 19th July 1903.

From J. Begbie, Esq., Secretary and Treasurer, Bank of Bombay, to the Under Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 2265-A, dated 28th April last, forwarding a memorandum containing the proposals which the Government of India are disposed to recommend to the Secretary of State for the amendment of the Presidency Banks Act and inviting the Directors to offer any further remarks which they may desire to make on the subject.

In reply I am instructed to address you as follows:—

2. The Directors are pleased to learn that it is proposed to give the Banks power to borrow in London. They note that the power is not to include authority to receive deposits and that it will be operative only when the Indian Bank rate rises above a fixed limit which the Government of India consider should be 7 or 8 per cent., and also that the arrangements to be made by the Banks for the remittance of funds to or from London will be subject to the approval of the Comptroller-General or of the Government of India. The Directors have only to remark with respect to these limitations that in the interests of the trade of the country they think that the power should become operative as soon as the Bank rate rises to 6 per cent.; also that the previous approval of the Comptroller General or the Government of India to the mode of remitting funds both ways will render the power to borrow cumbersome and uncertain, and that this sanction will not be obtainable with equal facility by the three Banks by reason of the distance of two of them from the sanctioning authority during the whole of the year. The Directors consequently consider that no such restrictions on the mode of remitting funds ought to be imposed. The term "Indian Bank rate" would, it is presumed, refer to the official rate of this Bank in the event of the Directors desiring to take advantage of the power to borrow in London.

3. The Directors have already expressed their opinion on proposals Nos. II. to IV. of the memorandum and have no further remarks to offer thereon at present except that a doubt exists whether under Section 37 of the Presidency Banks Act the Bank can *agree* to allow an overdraft. The new section might therefore make it clear that the Bank may not only allow an overdraft but also agree to allow one. They have at present nothing to say regarding proposals No. V. to VIII. inclusive.

4. With respect to the proposed further control over the operations of the Banks the Directors see considerable objections to the proposed requirement that the accounts should be audited by public accountants, because in India there is no recognised professional test of what is a Public Accountant, and so far as the Directors know there is only one firm in Bombay who could be properly so described.

5. With regard to the proposal to require the Banks to maintain their cash balances at a certain level and to impose a penalty when the proportion which those balances bear to the Bank's liabilities falls below a fixed minimum percentage, the Directors are advised that they have no authority on behalf of the shareholders in the Bank to assent to any such restriction being imposed on the Bank's present powers, and they entertain very strong objections to any such proposal. They would particularly object to the whole of their liabilities being treated alike in this matter and observe with pleasure that the Government of India recognises a distinction between liabilities at call and other liabilities of a permanent or fixed character.

6. The Directors beg to submit that it is the policy of this Bank to maintain a high percentage of cash to *call* liabilities and they consider that there is no necessity for imposing any minimum. Annexed hereto is a statement (A) showing the daily percentage of cash held against Government deposits and ordinary current deposit accounts since 1st January 1902. It will be seen therefrom that the reserve has rarely and only temporarily fallen below 40 per cent. and that it is usually much higher, which, the Directors submit, is proof of careful and prudent working. In addition to the ordinary current deposits included in statement (A) the Bank has other demand liabilities to the public consisting of Savings Bank deposits. In statement (B), also annexed, the Bank's daily percentage of cash to Government deposits and all call liabilities to the public combined, also prepared since 1st January 1902, is shown. The Directors consider that from their nature the Savings Bank deposits may be safely employed to a far larger extent than other call liabilities, and bearing this in mind the Directors submit that here also the reserve held shows careful and prudent working. They rely on the figures given in statement (A), from which it is clear that the reserve is maintained at a high level in view of the character of the liabilities mentioned. Calls of any consequence on the cash balance can be made only from these liabilities, and it is against these alone that the percentage of cash held is important. The Directors are satisfied that, for all practical purposes, their reserve is much more than sufficient, and they desire to intimate that it is their intention to continue the mode of working indicated in statement (A), and, if need be, they are prepared to give any reasonable assurance to this effect. This they beg to offer in preference to the proposed legal limitation, and on the understanding that any arrangement of this kind is made applicable to each of the Presidency Banks.

7. There are also annexed statements (C) and (D) showing respectively the daily percentage since 1st January 1902 of the Bank's cash and investments in Government paper and other public securities held against (1) Government and other ordinary current deposits and (2) Government deposits and all call liabilities to the public, which show that these deposits are held in a highly liquid form to a very large extent.

8. The remaining liabilities of the Bank to the public consist of deposits *fixed* for various periods. Against these the Directors venture to maintain that it is not necessary to keep any cash reserve throughout their currency. All that is necessary is to be prepared to meet them at maturity. To show the arrangements usually made to meet these liabilities as they mature a statement (E) is enclosed showing the amount of such deposits falling due in each week from 4th May last to 25th instant, and against these the amounts of bills falling due and receivable each week. This statement is sent because it was the one in actual use at the time the letter under reply was received. For comparison a similar statement (F) from 6th instant to 3rd October is annexed, being the statement in use at the date of this letter. It will be seen that if the deposits were not renewed or replaced by others, and it should therefore become necessary to pay the deposits in full as they matured from the Bank's resources, they could be met from the money due for bills receivable, and that usually there is a large margin of money receivable over money payable. The sums due on the bills would be collected and the money be paid to the depositors instead of being re-invested. If it were necessary, however, other investments could also be realised to meet the fixed deposits as they fall due. The Directors desire to explain that practically the only way in which this Bank can readily increase

its resources is by offering interest for deposits, and that during the past few years the Directors have made special efforts to collect deposits for fixed periods. By this means the Bank has been enabled to meet more fully the demands of the trading community for accommodation, and it may be fairly claimed that this action has contributed to the lower average rates of interest and discount which have ruled in recent years as compared with previous years. It would, however, be impossible to continue this policy of attracting fresh money on the one hand and lending to a larger extent on the other if it were necessary to maintain in cash 35 per cent. of the deposits so attracted, or, indeed, any smaller percentage. When trade is active, high rates of interest have frequently to be paid for short fixed deposits. If these are invested in the purchase of trade bills (which is the usual practice) at a profit of one or two per cent. per annum the Bank is satisfied, but if even a portion of this profit disappeared by reason of the Bank being required to hold a certain part of the deposits in cash, the business would become unprofitable, and on that account could not be entertained. In this connection the Directors deem it desirable to refer to the correspondence between the Government of India and the Bank ending with Government letter of 18th February last, and to explain that, in suggesting that deposits for two months should be excluded from the total liabilities in order to arrive at an accurate view of the Bank's position, the period of two months was taken, because that is the period for which the majority of short fixed deposits are offered in Bombay. The Directors have to explain further that they almost invariably invest such deposits in bills for two months, the majority of local or inland trade bills being also drawn at that currency. There is therefore in their opinion no need to retain any part of such deposits in cash. The principal additions to the resources of this Bank are likely to consist chiefly of Savings Bank deposits and deposits fixed for stated periods. A fixed percentage on all liabilities alike would therefore become more onerous as the deposits mentioned increased in proportion to all other deposits.

9. The Directors have endeavoured to show that it is necessary to keep a cash reserve against call liabilities only, and that as the Bank's reserve against call money is being maintained at a high level, the proposed limitation is not necessary. They desire further to point out, with all deference, that the proposal submitted will not add to the security of depositors, inasmuch as a minimum percentage will not be absolutely fixed. In their opinion the Banks' depositors are already amply protected by the limits put on the Bank's investments and by the frequent publication of the Bank's position, and in view of this and of the particulars given above as to the methods followed in connection with the maintenance of the cash reserve, they trust that Government will be pleased to withdraw the proposal.

## A.

## BANK OF BOMBAY.

*Statement showing the Daily Percentage of Cash to Liabilities consisting of Government and Current Deposits in* 1902.

("S." signifies Sunday and "H." Holiday.)

| Day of Month. | Jan. | Feb. | March. | April. | May. | June. | July. | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | H. | 48.94 | 50·24 | 57·26 | 49·13 | S. | 42·75 | 50·30 | 61·30 | 69·13 | H. | 68·68 |
| 2 | 53·00 | S. | S. | 54·06 | 47·18 | 47·91 | 43·61 | 51·31 | 61·91 | 69·01 | S. | 69·41 |
| 3 | 55·44 | 50·49 | 46·60 | 48·94 | 49·32 | 48·50 | 42·56 | S. | 61·93 | 68·27 | 65·59 | 70·78 |
| 4 | 52·22 | 46·31 | 50·02 | 54·77 | S | 48·87 | 44·41 | 50·86 | 62·01 | 67·66 | 65·77 | 70·37 |
| 5 | S. | 47·19 | 49·54 | 55·26 | 49·35 | 47·82 | 45·35 | 52·55 | H. | S. | 67·97 | 70·16 |
| 6 | 52·90 | 45·87 | 51·11 | S. | 47·32 | 47·81 | S. | 53·58 | 62·41 | 67·89 | 69·32 | 67·46 |
| 7 | 53·78 | 46·27 | 53·57 | 53·78 | 47·79 | 47·80 | 46·34 | 54·72 | S. | 67·20 | 70·20 | S. |
| 8 | 51·37 | 43·10 | H. | 53·75 | 47·50 | S | 49·30 | 56·88 | 62·21 | 66·18 | 71·95 | 68·21 |
| 9 | 54·25 | S. | S. | 53·90 | 47·66 | 46·40 | 49·73 | H. | 63·25 | 66·28 | S. | 69·28 |
| 10 | 54·22 | 38·94 | 54·70 | 50·78 | 46·97 | 47·62 | 50·50 | S. | 63·71 | 66·92 | 71·49 | 69·56 |
| 11 | 54·16 | 38·47 | 53·92 | 50·44 | S. | 47·69 | 49·28 | 56·31 | 63·83 | H. | 71·67 | 70·84 |
| 12 | S. | 37·92 | 54·53 | 51·04 | 47·66 | 47·89 | 49·53 | 56·98 | 65·38 | S. | 72·19 | 72·28 |
| 13 | 49·19 | 38·62 | 51·75 | S. | 47·55 | 47·72 | S. | 56·80 | H. | 65·16 | 72·41 | 73·84 |
| 14 | 47·09 | 45·28 | 50·82 | 50·67 | 47·03 | 50·42 | 51·01 | 56·87 | S. | 65·29 | 74·00 | S. |
| 15 | 44·52 | 46·27 | 49·08 | 46·55 | 47·21 | S. | 50·22 | 58·56 | H. | 64·58 | 73·29 | 74·02 |
| 16 | 41·63 | S. | S. | H. | 47·50 | 50·84 | 51·58 | 60·08 | 64·95 | 65·23 | S | 74·63 |
| 17 | 43·05 | 45·05 | 51·12 | 47·45 | 46·90 | 50·94 | 50·46 | S. | 65·55 | 65·83 | 72·24 | 74·32 |
| 18 | 42·88 | 43·09 | 52·49 | 45·62 | S. | 50·65 | 51·22 | H. | 65·98 | 67·50 | 72·23 | 74·41 |
| 19 | S. | 40·64 | 54·45 | H. | H. | 50·86 | 53·50 | 61·21 | 65·98 | S. | 71·97 | 73·75 |
| 20 | 44·78 | 42·72 | 58·63 | S. | 46·99 | 50·85 | S. | 61·80 | H. | 67·15 | 72·07 | 76·39 |
| 21 | 44·88 | 40·85 | 57·25 | 44·54 | 45·60 | 51·69 | 52·96 | 63·14 | S. | 67·95 | 72·43 | S. |
| 22 | 47·32 | 45·52 | 55·39 | 48·20 | 44·34 | S. | 53·47 | 63·50 | 66·54 | 69·25 | 72·75 | 73·18 |
| 23 | 49·48 | S. | S. | 47·96 | 42·17 | 51·51 | 51·56 | 64·57 | 68·44 | 69·93 | S. | 72·10 |
| 24 | 49·99 | 49·57 | H. | 47·47 | H. | 51·48 | 52·10 | S. | 69·20 | 69·36 | 71·62 | H. |
| 25 | 50·84 | 50·13 | 55·57 | 49·62 | S. | 52·32 | 51·29 | 64·53 | 68·71 | 69·44 | 72·47 | H. |
| 26 | S. | 48·56 | 54·65 | 48·74 | 41·61 | H. | 52·19 | H. | 68·84 | S. | 72·32 | H. |
| 27 | 50·00 | 48·23 | 54·62 | S. | 41·31 | 50·75 | S. | 66·02 | 68·93 | 69·12 | 71·66 | 70·88 |
| 28 | 47·73 | 47·67 | H. | 59·14 | 38·61 | 52·62 | 52·38 | 66·23 | S. | 70·60 | 72·28 | S. |
| 29 | 50·00 | — | H. | 57·36 | 41·45 | S. | 52·06 | 60·31 | 68·73 | 68·28 | 72·46 | 68·51 |
| 30 | 47·77 | — | S. | 51·39 | H. | 42·65 | 50·83 | 61·27 | 69·76 | 65·84 | S. | 68·08 |
| 31 | 48·46 | — | H. | — | 48·41 | — | 49·57 | S. | — | H. | — | H. |

Bank of Bombay,
9th July 1903.

## A.

*Statement showing the Daily Percentage of Cash to Liabilities consisting of Government and Current Deposits in* 1903.

("S." signifies Sunday and "H." Holiday.)

| Day of Month. | Jan. | Feb. | March. | April. | May. | June. | July. | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | H. | S. | S. | 62·43 | 45·37 | 49·74 | | | | | | |
| 2 | H. | 59·88 | 52·63 | 63·76 | 50·66 | 54·97 | | | | | | |
| 3 | 69·02 | 59·99 | 58·63 | 63·22 | S. | 47·80 | | | | | | |
| 4 | S. | 62·87 | 60·87 | 61·30 | 46·49 | 46·86 | | | | | | |
| 5 | 69·39 | 62·89 | 58·93 | S. | 45·61 | 53·98 | | | | | | |
| 6 | 70·21 | 63·43 | 59·14 | H. | 43·04 | 54·69 | | | | | | |
| 7 | 69·03 | 63·22 | 60·40 | 58·27 | 44·94 | S. | | | | | | |
| 8 | 68·23 | S. | S. | 52·74 | 43·92 | 57·15 | | | | | | |
| 9 | 67·79 | 62·62 | 61·62 | H. | 47·61 | 57·73 | | | | | | |
| 10 | 67·74 | 63·79 | 60·84 | H. | S. | 59·85 | | | | | | |
| 11 | S. | 64·87 | 59·34 | H. | 46·27 | 60·87 | | | | | | |
| 12 | 66·60 | 59·94 | 57·16 | S. | 47·61 | 62·19 | | | | | | |
| 13 | 64·02 | 58·63 | H. | H. | 49·15 | 62·73 | | | | | | |
| 14 | 64·85 | 59·70 | 61·70 | 54·71 | 49·62 | S. | | | | | | |
| 15 | 64·01 | S. | S. | 55·06 | 50·69 | 61·20 | | | | | | |
| 16 | 63·93 | 57·62 | 61·55 | 53·90 | 47·47 | 61·06 | | | | | | |
| 17 | 67·47 | 61·14 | 60·98 | 54·06 | S. | 60·53 | | | | | | |
| 18 | S. | 58·97 | 61·60 | 52·41 | 44·93 | 61·31 | | | | | | |
| 19 | 64·97 | 59·79 | 61·07 | S. | 47·08 | 60·38 | | | | | | |
| 20 | 65·32 | 58·48 | 60·57 | 52·16 | 47·30 | 56·63 | | | | | | |
| 21 | 65·14 | 56·87 | H. | 53·40 | 47·55 | S. | | | | | | |
| 22 | 64·71 | S. | S. | 52·17 | 46·60 | 57·39 | | | | | | |
| 23 | 67·02 | 57·43 | 59·40 | 49·51 | 51·55 | 58·05 | | | | | | |
| 24 | 67·62 | 58·66 | 63·77 | 49·78 | S. | 57·77 | | | | | | |
| 25 | S. | H. | 64·65 | 50·66 | 51·84 | 58·74 | | | | | | |
| 26 | 65·94 | 58·57 | 66·23 | S. | 55·08 | H. | | | | | | |
| 27 | 65·18 | 56·07 | 63·83 | 47·49 | 55·28 | 58·08 | | | | | | |
| 28 | 65·39 | 56·53 | 63·49 | 46·33 | 54·67 | S. | | | | | | |
| 29 | 64·90 | — | S. | 45·94 | 56·19 | 60·45 | | | | | | |
| 30 | 65·12 | — | 62·50 | 44·92 | 51·66 | 65·10 | | | | | | |
| 31 | 65·75 | — | 62·00 | — | S. | — | | | | | | |

Bank of Bombay,
9th July 1903.

## B.

## BANK OF BOMBAY.

*Statement showing the Daily Percentage of Bank's Cash to Government and Current Deposits including Savings Bank Deposits in* 1902.

("S." signifies Sunday and "H." Holiday.)

| Day of Month. | Jan. | Feb. | March. | April. | May. | June. | July. | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | H. | 41·07 | 42·36 | 49·41 | 42·71 | S. | 36·53 | 43·67 | 54·21 | 61·13 | H. | 59·15 |
| 2 | 45·72 | S. | S. | 46·64 | 41·10 | 49·98 | 37·24 | 44·71 | 54·43 | 61·08 | S. | 60·20 |
| 3 | 44·47 | 42·52 | 39·22 | 41·83 | 42·80 | 41·64 | 36·30 | S. | 54·84 | 60·70 | 56·74 | 61·46 |
| 4 | 44·87 | 39·08 | 42·69 | 47·72 | S. | 41·98 | 37·90 | 44·36 | 54·89 | 59·61 | 57·14 | 61·01 |
| 5 | S. | 39·87 | 41·93 | 47·88 | 42·96 | 40·98 | 38·65 | 46·04 | H. | S. | 59·10 | 60·77 |
| 6 | 45·19 | 38·67 | 43·51 | S. | 40·94 | 49·89 | S. | 46·94 | 55·17 | 59·91 | 60·34 | 58·40 |
| 7 | 45·67 | 39·32 | 45·83 | 46·40 | 41·46 | 40·81 | 39·40 | 47·98 | S. | 59·34 | 61·11 | S. |
| 8 | 43·99 | 36·51 | H. | 46·55 | 41·14 | S. | 42·08 | 49·87 | 55·06 | 58·39 | 62·42 | 58·93 |
| 9 | 46·81 | S. | S. | 46·78 | 41·18 | 39·58 | 42·48 | H. | 56·05 | 58·42 | S. | 59·93 |
| 10 | 46·61 | 32·92 | 46·74 | 43·79 | 40·60 | 40·70 | 43·20 | S. | 56·39 | 58·98 | 62·00 | 60·16 |
| 11 | 46·38 | 32·55 | 45·94 | 43·44 | S. | 40·68 | 42·60 | 49·48 | 56·39 | H. | 62·36 | 61·77 |
| 12 | S. | 31·96 | 46·45 | 44·63 | 41·24 | 40·78 | 42·39 | 50·15 | 57·70 | S. | 62·78 | 62·89 |
| 13 | 41·62 | 31·96 | 44·44 | S. | 41·14 | 40·57 | S. | 49·98 | H. | 57·51 | 62·89 | 64·22 |
| 14 | 39·81 | 38·02 | 43·26 | 43·86 | 40·76 | 42·98 | 43·80 | 50·09 | S. | 57·60 | 64·43 | S. |
| 15 | 37·48 | 38·56 | 41·44 | 40·07 | 40·98 | S. | 43·09 | 51·77 | H. | 56·79 | 63·81 | 64·34 |
| 16 | 35·02 | S. | S. | H. | 41·29 | 40·30 | 44·35 | 53·05 | 57·58 | 57·41 | S. | 64·69 |
| 17 | 36·13 | 38·39 | 43·44 | 40·71 | 40·73 | 43·35 | 43·18 | S. | 58·18 | 57·86 | 62·88 | 64·32 |
| 18 | 31·00 | 36·77 | 44·63 | 39·14 | S. | 43·19 | 43·98 | H. | 58·54 | 59·37 | 62·89 | 64·30 |
| 19 | S. | 34·32 | 46·38 | H. | H. | 43·45 | 46·03 | 54·18 | 58·50 | S. | 62·74 | 63·41 |
| 20 | 37·52 | 36·05 | 50·03 | S. | 40·88 | 43·24 | S. | 54·75 | H. | 59·01 | 62·82 | 66·09 |
| 21 | 37·43 | 34·67 | 48·84 | 38·03 | 39·56 | 44·12 | 45·74 | 55·91 | S. | 59·78 | 63·20 | S. |
| 22 | 39·86 | 39·05 | 47·34 | 41·22 | 38·39 | S. | 46·20 | 56·23 | 58·94 | 60·87 | 63·59 | 62·82 |
| 23 | 41·84 | S. | S. | 40·79 | 36·22 | 44·19 | 44·83 | 57·19 | 60·71 | 60·66 | S. | 61·54 |
| 24 | 42·35 | 42·28 | H. | 40·21 | H. | 44·02 | 45·36 | S. | 61·47 | 60·88 | 62·28 | H. |
| 25 | 42·95 | 42·71 | 47·36 | 42·11 | S. | 44·92 | 44·76 | 57·15 | 60·93 | 60·89 | 62·99 | H. |
| 26 | S. | 41·21 | 46·24 | 41·47 | 35·78 | H. | 45·61 | H. | 61·07 | S. | 63·03 | H. |
| 27 | 42·21 | 40·88 | 46·08 | S. | 35·63 | 43·05 | S. | 58·57 | 60·83 | 60·49 | 62·23 | 60·78 |
| 28 | 40·16 | 40·24 | H. | 50·90 | 33·15 | 44·87 | 45·82 | 58·68 | S. | 61·01 | 62·93 | S. |
| 29 | 42·10 | — | H. | 49·41 | 35·58 | S. | 45·59 | 53·29 | 60·67 | 58·85 | 62·71 | 58·76 |
| 30 | 40·09 | — | S. | 44·75 | H. | 36·52 | 44·58 | 54·21 | 61·66 | 56·73 | S. | 57·94 |
| 31 | 40·73 | — | H. | — | 41·44 | — | 43·23 | S. | — | H. | — | H. |

Bank of Bombay,
9th July 1903.

## B.

*Statement showing the Daily Percentage of Bank's Cash to Government and Current Deposits, including Savings Bank Deposits in* 1903.

("S." signifies Sunday and "H." Holiday.)

| Day of Month. | Jan. | Feb. | March. | April. | May. | June. | July. | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | H. | S. | S. | 52·64 | 37·37 | 40·19 | | | | | | |
| 2 | H. | 48·72 | 42·53 | 53·87 | 41·51 | 43·51 | | | | | | |
| 3 | 58·69 | 49·30 | 47·93 | 53·13 | S. | 38·44 | | | | | | |
| 4 | S. | 52·34 | 50·36 | 51·57 | 37·95 | 37·64 | | | | | | |
| 5 | 58·41 | 52·28 | 48·59 | S. | 37·48 | 43·90 | | | | | | |
| 6 | 59·25 | 52·97 | 48·94 | H. | 35·49 | 44·26 | | | | | | |
| 7 | 58·26 | 52·60 | 50·30 | 48·77 | 37·05 | S. | | | | | | |
| 8 | 57·49 | S. | S. | 48·56 | 36·05 | 45·90 | | | | | | |
| 9 | 56·26 | 52·00 | 51·28 | H. | 39·27 | 46·35 | | | | | | |
| 10 | 56·76 | 53·06 | 50·27 | H. | S. | 48·42 | | | | | | |
| 11 | S. | 53·72 | 49·19 | H. | 38·10 | 49·38 | | | | | | |
| 12 | 56·13 | 48·70 | 47·71 | S. | 39·19 | 50·04 | | | | | | |
| 13 | 53·85 | 47·39 | H. | H. | 40·49 | 50·35 | | | | | | |
| 14 | 54·58 | 48·65 | 51·91 | 45·72 | 40·81 | S. | | | | | | |
| 15 | 53·90 | S. | S. | 46·06 | 41·95 | 49·22 | | | | | | |
| 16 | 53·45 | 46·50 | 51·86 | 45·33 | 38·77 | 49·08 | | | | | | |
| 17 | 56·40 | 49·27 | 51·48 | 45·28 | S. | 48·23 | | | | | | |
| 18 | S. | 47·73 | 52·26 | 43·64 | 36·53 | 49·03 | | | | | | |
| 19 | 53·85 | 48·76 | 51·83 | S. | 38·22 | 48·21 | | | | | | |
| 20 | 54·42 | 47·40 | 51·49 | 43·44 | 38·27 | 45·66 | | | | | | |
| 21 | 54·26 | 45·95 | H. | 44·62 | 38·26 | S. | | | | | | |
| 22 | 54·16 | S. | S. | 43·47 | 37·47 | 45·94 | | | | | | |
| 23 | 56·44 | 46·38 | 50·41 | 40·99 | 41·66 | 46·77 | | | | | | |
| 24 | 56·89 | 47·38 | 54·28 | 41·04 | S. | 46·71 | | | | | | |
| 25 | S. | H. | 55·14 | 41·66 | 41·89 | 47·49 | | | | | | |
| 26 | 55·37 | 47·17 | 56·50 | S. | 44·28 | H. | | | | | | |
| 27 | 54·62 | 45·18 | 54·40 | 39·32 | 44·72 | 46·77 | | | | | | |
| 28 | 54·85 | 45·57 | 53·95 | 38·20 | 44·08 | S. | | | | | | |
| 29 | 54·25 | — | S. | 37·85 | 45·19 | 48·80 | | | | | | |
| 30 | 53·91 | — | 52·91 | 37·12 | 41·67 | 52·51 | | | | | | |
| 31 | 54·27 | — | 52·47 | — | S. | — | | | | | | |

Bank of Bombay,
9th July 1903.

## C.

## Bank of Bombay.

*Statement showing the Daily Percentage of Cash and Public Securities to Liabilities consisting of Government and Current Deposits in* 1902.

("S." signifies Sunday and "H." Holiday.)

| Day of Month. | Jan. | Feb. | March. | April. | May. | June. | July. | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | H. | 82·19 | 76·15 | 82·46 | 77·96 | S. | 73·13 | 73·91 | 87·57 | 94·55 | H. | 97·98 |
| 2 | 92·21 | S. | S. | 79·09 | 75·61 | 73·49 | 74·03 | 76·62 | 88·10 | 94·19 | S. | 98·24 |
| 3 | 94·74 | 82·65 | 76·78 | 74·60 | 76·06 | 73·26 | 73·08 | S. | 88·06 | 93·82 | 93·97 | 99·32 |
| 4 | 95·59 | 82·60 | 77·40 | 78·23 | S. | 76·72 | 74·80 | 75·32 | 87·91 | 91·57 | 93·01 | 98·79 |
| 5 | S. | 82·68 | 78·30 | 79·74 | 75·45 | 73·11 | 73·85 | 76·10 | H. | S. | 94·67 | 99·05 |
| 6 | 87·45 | 81·81 | 78·69 | S. | 74·58 | 72·89 | S. | 76·79 | 88·18 | 91·51 | 95·86 | 96·36 |
| 7 | 83·26 | 80·04 | 80·42 | 80·86 | 74·30 | 73·30 | 72·63 | 77·14 | S. | 90·52 | 96·47 | S. |
| 8 | 84·26 | 77·50 | H. | 80·22 | 74·32 | S. | 74·91 | 79·20 | 87·75 | 89·61 | 99·46 | 97·27 |
| 9 | 84·59 | S. | S. | 81·47 | 76·69 | 72·07 | 75·06 | H. | 88·42 | 89·94 | S. | 98·10 |
| 10 | 85·32 | 73·62 | 81·53 | 78·06 | 75·90 | 72·93 | 75·48 | S. | 89·08 | 89·59 | 98·97 | 98·40 |
| 11 | 82·81 | 71·62 | 81·21 | 77·91 | S. | 72·98 | 78·78 | 78·93 | 89·59 | H. | 98·46 | 99·06 |
| 12 | S. | 71·77 | 81·62 | 77·73 | 76·45 | 73·53 | 80·86 | 80·46 | 91·11 | S. | 98·98 | 99·68 |
| 13 | 80·88 | 71·98 | 77·58 | S. | 76·07 | 73·64 | S. | 80·32 | H. | 88·38 | 99·50 | 100·24 |
| 14 | 79·14 | 79·53 | 78·05 | 76·91 | 75·23 | 75·86 | 80·66 | 80·16 | S. | 88·48 | 100·60 | S. |
| 15 | 76·67 | 78·83 | 77·44 | 73·90 | 75·13 | S. | 79·94 | 80·65 | H. | 88·43 | 99·87 | 100·50 |
| 16 | 78·15 | S. | S. | H. | 75·18 | 76·66 | 81·25 | 82·29 | 90·10 | 88·86 | S. | 100·05 |
| 17 | 77·70 | 71·91 | 78·63 | 75·53 | 74·95 | 76·80 | 81·13 | S. | 90·01 | 89·75 | 98·82 | 100·48 |
| 18 | 79·84 | 69·53 | 79·86 | 73·63 | S. | 76·18 | 81·29 | H. | 90·18 | 91·23 | 98·70 | 100·85 |
| 19 | S. | 68·88 | 81·41 | H. | H. | 76·07 | 83·71 | 82·95 | 90·79 | S. | 98·13 | 100·10 |
| 20 | 82·97 | 70·30 | 85·03 | S. | 74·92 | 76·73 | S. | 83·26 | H. | 91·04 | 98·47 | 102·41 |
| 21 | 81·57 | 67·43 | 83·61 | 73·49 | 74·28 | 77·27 | 82·45 | 84·77 | S. | 91·49 | 98·88 | S. |
| 22 | 81·38 | 68·98 | 81·38 | 76·60 | 73·39 | S. | 82·81 | 85·08 | 91·55 | 92·76 | 98·74 | 100·75 |
| 23 | 81·12 | S. | S. | 75·92 | 72·51 | 76·17 | 83·40 | 86·03 | 93·16 | 92·82 | S. | 100·71 |
| 24 | 82·47 | 73·89 | H. | 75·91 | H. | 76·34 | 82·91 | S. | 93·50 | 93·01 | 98·18 | H. |
| 25 | 81·30 | 74·53 | 82·32 | 76·98 | S. | 76·87 | 81·50 | 86·50 | 93·36 | 93·41 | 99·07 | H. |
| 26 | S. | 73·58 | 82·39 | 76·18 | 72·30 | H. | 81·93 | H. | 93·40 | S. | 98·35 | H. |
| 27 | 80·07 | 73·36 | 82·72 | S. | 70·90 | 74·84 | S. | 87·59 | 92·66 | 93·45 | 98·36 | 98·57 |
| 28 | 82·02 | 73·41 | H. | 84·05 | 69·16 | 75·83 | 81·83 | 88·09 | S. | 97·29 | 98·50 | S. |
| 29 | 80·46 | — | H. | 82·18 | 69·10 | S. | 80·87 | 88·27 | 92·42 | 97·63 | 99·76 | 96·16 |
| 30 | 80·69 | — | S. | 80·05 | H. | 72·21 | 78·77 | 87·64 | 94·92 | 95·22 | S. | 96·46 |
| 31 | 81·43 | — | H. | — | 76·44 | — | 74·19 | S. | — | H. | — | H |

Bank of Bombay,
9th July 1903.

## C.

*Statement showing the Daily Percentage of Cash and Public Securities to Liabilities consisting of Government and Current Deposits in* 1903.

("S." signifies Sunday and "H." Holiday.)

| Day of Month. | Jan. | Feb. | March. | April. | May. | June. | July. | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | H. | S. | S. | 85·27 | 73·89 | 80·75 | | | | | | |
| 2 | H. | 90·65 | 82·62 | 88·13 | 79·17 | 89·35 | | | | | | |
| 3 | 97·24 | 91·33 | 85·69 | 87·62 | S. | 79·91 | | | | | | |
| 4 | S. | 91·94 | 86·11 | 85·48 | 74·78 | 79·29 | | | | | | |
| 5 | 95·73 | 92·14 | 86·03 | S. | 72·73 | 83·64 | | | | | | |
| 6 | 95·97 | 91·93 | 84·98 | H. | 69·61 | 85·17 | | | | | | |
| 7 | 94·75 | 89·57 | 85·27 | 83·23 | 71·04 | S. | | | | | | |
| 8 | 94·24 | S. | S. | 79·75 | 70·97 | 88·91 | | | | | | |
| 9 | 94·13 | 89·29 | 86·15 | H. | 73·89 | 89·91 | | | | | | |
| 10 | 94·70 | 90·05 | 86·71 | H. | S. | 91·37 | | | | | | |
| 11 | S. | 91·65 | 85·14 | H. | 72·82 | 92·22 | | | | | | |
| 12 | 92·64 | 89·72 | 81·93 | S. | 74·23 | 94·90 | | | | | | |
| 13 | 90·31 | 89·20 | H. | H. | 75·61 | 95·77 | | | | | | |
| 14 | 91·04 | 89·12 | 85·28 | 79·96 | 76·21 | S. | | | | | | |
| 15 | 89·88 | S. | S. | 80·15 | 76·31 | 94·48 | | | | | | |
| 16 | 90·63 | 88·55 | 84·61 | 78·01 | 75·04 | 94·42 | | | | | | |
| 17 | 94·42 | 92·18 | 83·77 | 78·68 | S. | 95·34 | | | | | | |
| 18 | S. | 89·34 | 83·72 | 77·91 | 73·19 | 96·56 | | | | | | |
| 19 | 93·31 | 88·91 | 83·23 | S. | 75·47 | 95·89 | | | | | | |
| 20 | 92·72 | 88·54 | 82·53 | 77·63 | 76·15 | 90·36 | | | | | | |
| 21 | 92·21 | 87·41 | H. | 78·04 | 77·16 | S. | | | | | | |
| 22 | 91·13 | S. | S. | 77·15 | 76·28 | 92·54 | | | | | | |
| 23 | 92·38 | 88·40 | 81·47 | 75·39 | 80·40 | 92·01 | | | | | | |
| 24 | 93·10 | 88·86 | 85·37 | 73·51 | S. | 91·06 | | | | | | |
| 25 | S. | H. | 85·94 | 74·71 | 80·91 | 92·02 | | | | | | |
| 26 | 91·73 | 89·48 | 87·43 | S. | 84·78 | H. | | | | | | |
| 27 | 91·30 | 86·84 | 84·93 | 73·29 | 84·05 | 91·99 | | | | | | |
| 28 | 91·18 | 87·06 | 84·97 | 75·61 | 83·89 | S. | | | | | | |
| 29 | 91·40 | — | S. | 75·31 | 85·96 | 93·86 | | | | | | |
| 30 | 93·11 | — | 84·22 | 73·98 | 80·92 | 99·05 | | | | | | |
| 31 | 94·16 | — | 83·36 | — | S. | — | | | | | | |

Bank of Bombay,
9th July 1903.

## D.

## Bank of Bombay.

*Statement showing the Daily Percentage of Cash and Public Securities to Liabilities consisting of Government and Current Deposits, including Savings Bank Deposits in* 1902.

("S." signifies Sunday and "H." Holiday.)

| Day of Month. | Jan. | Feb. | March. | April. | May. | June. | July. | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | H. | 69·31 | 64·20 | 70·72 | 67·77 | S. | 62·48 | 64·17 | 77·47 | 83·59 | H. | 84·40 |
| 2 | 79·81 | S. | S. | 68·23 | 65·08 | 62·81 | 63·25 | 66·21 | 77·94 | 83·36 | S. | 85·21 |
| 3 | 81·51 | 69·80 | 64·64 | 64·14 | 66·00 | 62·89 | 62·37 | S. | 77·97 | 83·11 | 81·30 | 86·24 |
| 4 | 81·75 | 69·81 | 66·05 | 68·15 | S. | 63·32 | 63·83 | 65·68 | 77·83 | 80·65 | 80·81 | 85·35 |
| 5 | S. | 69·85 | 66·27 | 69·10 | 65·68 | 62·64 | 62·95 | 66·68 | H. | S. | 82·32 | 85·79 |
| 6 | 74·37 | 68·96 | 67·00 | S. | 64·53 | 62·34 | S. | 67·26 | 77·95 | 80·49 | 83·43 | 83·60 |
| 7 | 71·38 | 68·01 | 68·80 | 69·76 | 64·47 | 62·57 | 61·62 | 67·79 | S. | 79·93 | 83·97 | S. |
| 8 | 72·79 | 65·65 | H. | 69·46 | 64·37 | S. | 63·91 | 69·46 | 77·66 | 79·07 | 86·31 | 84·02 |
| 9 | 72·80 | S. | S. | 70·70 | 66·26 | 61·48 | 64·12 | H. | 78·35 | 79·27 | S. | 84·87 |
| 10 | 73·16 | 62·24 | 69·67 | 67·31 | 65·60 | 62·34 | 64·57 | S. | 78·83 | 78·96 | 85·83 | 85·10 |
| 11 | 70·15 | 60·33 | 69·19 | 67·10 | S. | 62·25 | 68·11 | 69·12 | 79·12 | H. | 85·66 | 85·92 |
| 12 | S. | 60·48 | 69·53 | 67·32 | 66·15 | 62·42 | 69·00 | 70·82 | 80·41 | S. | 86·08 | 86·73 |
| 13 | 68·46 | 60·52 | 66·62 | S. | 65·82 | 62·58 | S. | 70·68 | H. | 78·00 | 86·04 | 87·19 |
| 14 | 66·73 | 66·77 | 66·45 | 66·57 | 65·21 | 64·67 | 69·26 | 70·67 | S. | 78·06 | 87·59 | S. |
| 15 | 64·52 | 65·69 | 65·48 | 63·61 | 65·22 | S. | 68·59 | 71·29 | H. | 77·76 | 85·11 | 87·37 |
| 16 | 65·68 | S. | S. | H. | 65·35 | 65·24 | 69·86 | 72·66 | 79·72 | 78·22 | S. | 87·18 |
| 17 | 65·32 | 61·27 | 66·81 | 64·80 | 65·10 | 65·36 | 69·43 | S. | 79·89 | 78·87 | 84·18 | 86·96 |
| 18 | 66·99 | 59·33 | 67·90 | 63·19 | S. | 64·95 | 69·75 | H. | 80·00 | 80·24 | 85·94 | 87·15 |
| 19 | S. | 58·17 | 69·35 | H. | H. | 64·99 | 72·02 | 73·42 | 80·50 | S. | 85·73 | 86·93 |
| 20 | 69·31 | 59·33 | 72·56 | S. | 65·18 | 65·24 | S. | 73·76 | H. | 80·00 | 85·82 | 88·61 |
| 21 | 67·61 | 57·22 | 71·34 | 62·75 | 64·44 | 65·95 | 71·20 | 75·06 | S. | 80·48 | 86·04 | S. |
| 22 | 68·90 | 59·17 | 69·56 | 65·54 | 63·56 | S. | 71·55 | 75·35 | 81·09 | 81·54 | 86·19 | 86·48 |
| 23 | 68·80 | S. | S. | 64·57 | 62·45 | 65·19 | 72·48 | 76·24 | 82·64 | 81·52 | S. | 85·97 |
| 24 | 69·70 | 63·02 | H. | 64·34 | H. | 65·28 | 72·19 | S. | 83·06 | 81·63 | 85·34 | H. |
| 25 | 68·80 | 63·48 | 70·12 | 65·33 | S. | 65·99 | 71·13 | 76·59 | 82·78 | 81·92 | 86·09 | H. |
| 26 | S. | 62·45 | 69·72 | 64·83 | 62·18 | H. | 71·61 | H. | 82·86 | S. | 85·72 | H. |
| 27 | 67·45 | 62·18 | 69·79 | S. | 61·01 | 63·48 | S. | 77·72 | 81·77 | 81·79 | 85·43 | 84·50 |
| 28 | 69·13 | 61·97 | H. | 72·35 | 59·38 | 64·66 | 71·61 | 78·04 | S. | 84·84 | 85·74 | S. |
| 29 | 67·62 | — | H. | 70·79 | 59·53 | S. | 70·81 | 78·00 | 81·57 | 84·15 | 86·34 | 82·43 |
| 30 | 67·91 | — | S. | 69·72 | H. | 61·84 | 69·08 | 77·53 | 83·89 | 82·03 | S. | 82·07 |
| 31 | 68·43 | — | H. | — | 65·44 | — | 64·69 | H. | — | H. | — | H. |

Bank of Bombay,
9th July 1903.

## D.

*Statement showing the Daily Percentage of Cash and Public Securities to Liabilities consisting of Government and Current Deposits, including Savings Bank Deposits in* 1903.

("S." signifies Sunday and "H." Holiday.)

| Day of Month. | Jan. | Feb. | March. | April. | May. | June. | July. | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | H. | S. | S. | 71·91 | 60·86 | 65·25 | | | | | | |
| 2 | H. | 73·75 | 66·77 | 74·28 | 64·93 | 70·71 | | | | | | |
| 3 | 82·70 | 75·06 | 70·05 | 73·63 | S. | 64·26 | | | | | | |
| 4 | S. | 76·53 | 71·24 | 71·92 | 61·12 | 63·70 | | | | | | |
| 5 | 80·60 | 76·60 | 70·94 | S. | 59·77 | 68·04 | | | | | | |
| 6 | 80·99 | 76·77 | 70·32 | H. | 57·41 | 68·03 | | | | | | |
| 7 | 79·97 | 74·53 | 71·01 | 69·67 | 58·88 | S. | | | | | | |
| 8 | 79·41 | S. | S. | 65·87 | 58·26 | 71·41 | | | | | | |
| 9 | 79·27 | 74·14 | 71·99 | H. | 60·96 | 72·19 | | | | | | |
| 10 | 79·36 | 74·91 | 71·65 | H. | S. | 73·92 | | | | | | |
| 11 | S. | 75·91 | 70·58 | H. | 59·96 | 74·82 | | | | | | |
| 12 | 78·08 | 72·89 | 68·39 | S. | 61·10 | 76·35 | | | | | | |
| 13 | 75·99 | 72·10 | H. | H. | 62·29 | 76·88 | | | | | | |
| 14 | 76·43 | 72·62 | 71·69 | 66·83 | 62·68 | S. | | | | | | |
| 15 | 75·69 | S. | S. | 67·05 | 63·16 | 75·99 | | | | | | |
| 16 | 76·06 | 71·46 | 71·30 | 65·61 | 61·29 | 75·90 | | | | | | |
| 17 | 78·93 | 74·29 | 70·72 | 65·90 | S. | 75·97 | | | | | | |
| 18 | S. | 72·31 | 71·02 | 64·86 | 59·50 | 77·21 | | | | | | |
| 19 | 77·33 | 72·51 | 70·64 | S. | 61·26 | 76·56 | | | | | | |
| 20 | 77·02 | 71·77 | 70·15 | 64·65 | 61·61 | 72·85 | | | | | | |
| 21 | 76·90 | 70·62 | H. | 65·21 | 62·08 | S. | | | | | | |
| 22 | 76·27 | S. | S. | 64·29 | 61·33 | 74·08 | | | | | | |
| 23 | 77·80 | 71·34 | 69·13 | 62·43 | 64·98 | 74·13 | | | | | | |
| 24 | 78·34 | 71·89 | 72·67 | 60·61 | S. | 73·63 | | | | | | |
| 25 | S. | H. | 73·30 | 61·44 | 65·39 | 74·40 | | | | | | |
| 26 | 77·03 | 72·06 | 74·59 | S | 68·15 | H. | | | | | | |
| 27 | 76·50 | 69·98 | 72·39 | 60·69 | 67·99 | 74·08 | | | | | | |
| 28 | 76·48 | 70·18 | 72·20 | 62·35 | 67·65 | S. | | | | | | |
| 29 | 76·40 | — | S. | 62·06 | 69·13 | 75·77 | | | | | | |
| 30 | 77·08 | — | 71·29 | 61·13 | 65·27 | 79·89 | | | | | | |
| 31 | 77·71 | — | 70·75 | — | S. | — | | | | | | |

Bank of Bombay,
9th July 1903.

## E.

### BANK OF BOMBAY.

*Statement showing the Amount of Bills falling due Weekly from 4th May to 25th July 1903, and the Amount of Fixed Deposits maturing during the same periods.*

| Week ending | Bills falling due. | Fixed Deposits maturing. |
|---|---|---|
| 9th May | 46,43,957 | 6,96,846 |
| 16th „ | 45,44,209 | 14,53,905 |
| 23rd „ | 37,25,132 | 8,60,071 |
| 30th „ | 32,65,511 | 12,44,861 |
| 6th June | 32,44,194 | 11,00,973 |
| 13th „ | 24,51,314 | 1,37,000 |
| 20th „ | 19,01,500 | 17,61,748 |
| 27th „ | 21,76,340 | 12,64,823 |
| 4th July | 13,46,820 | 11,22,280 |
| 11th „ | 9,49,456 | 1,39,174 |
| 18th „ | 11,00,400 | 80,700 |
| 25th „ | 7,95,265 | 6,21,753 |

Bank of Bombay,
9th July 1903.

## F.

*Statement showing the Amount of Bills falling due Weekly from 6th July to 3rd October 1903, and the Amount of Fixed Deposits maturing during the same periods.*

| Week ending | Bills falling due. | Fixed Deposits maturing. |
|---|---|---|
| 11th July | 27,32,427 | 5,02,397 |
| 18th „ | 25,44,213 | 12,71,793 |
| 25th „ | 21,40,584 | 13,98,193 |
| 1st August | 24,16,242 | 9,63,000 |
| 8th „ | 35,19,400 | 6,48,957 |
| 15th „ | 24,69,758 | 60,550 |
| 22nd „ | 23,99,651 | 8,38,918 |
| 29th „ | 14,05,377 | 1,80,416 |
| 5th September | 9,89,194 | 1,47,000 |
| 12th „ | 1,82,229 | 6,41,646 |
| 19th „ | 2,44,311 | 98,286 |
| 26th „ | 2,75,800 | 18,000 |
| 3rd October | 3,32,800 | 2,01,916 |

Bank of Bombay,
9th July 1903.

Enclosure No. 8.

Dated 13th July 1903.

From G. D. Ker, Esq., Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 2265-A, of 28th April 1903, enclosing a memorandum of the proposals which the Government of India are disposed to recommend to the Secretary of State for the amendment of the Presidency Banks Act, and stating that Government will be glad to receive any further remarks which my Directors may desire to make on the subject before addressing the Secretary of State.

These proposals have received the careful consideration of my Directors, and I am desired to submit for the consideration of Government the following remarks thereon.

2. *Borrowing in London.*—It is noted that Government propose to give the Banks power to borrow in London, when the Bank rate in India rises above a certain point (7 or 8 per cent.), but that it is not intended to encourage resort to that market as a "speculative" measure, in anticipation of a deficiency of loanable capital on this side, and further that in order to prevent any possible clashing with the Government arrangements for remittances, the Bank's arrangements for remittance of funds to or from London should be subject to the approval of the Comptroller-General or of the Government of India.

My Directors conceive that it is the desire of Government to deter the Presidency Banks from entering into exchange operations, and that it is therefore thought necessary to prohibit the Banks from borrowing in London until their resources on this side have run so low as to render such a course *immediately* necessary. I am to point out, however, that it is quite conceivable that early in the season circumstances may indicate that it is desirable for a Bank to strengthen its position, with a view to the near future, and my Directors submit that it is an unnecessary restriction to compel a Bank to wait until the matter becomes actually urgent, and when it will have to lay down its funds at a maximum cost.

My Directors think it may be safely assumed that the Banks will not borrow and pay interest on such borrowed money unless there is need for so doing, and they submit that a Presidency Bank may be trusted to respect any restrictions on its operations which are laid down with regard to "speculative" importation of funds. Circumstances may, however, render it necessary (or desirable) to provide early in the season for the estimated requirements of the season. My Directors trust, therefore, that Government will see fit to modify its proposal in this sense.

3. With regard to the possible clashing of the Bank's arrangements with Government arrangements for remittances, I am to say that my Directors cannot understand how any transactions which this Bank is likely to enter into can operate detrimentally to Government, but they are, of course, willing to abide by a *modus operandi* which has received the approval of the Comptroller-General or of the Government of India. It is most desirable, however, that some general rules approved by Government should be laid down and that a special reference on each occasion should not be necessary.

4. With regard to the general question of borrowing in London, my Directors have not altered their views as to the importance of giving the Banks this power. They wish, however, to say that owing to the growing confidence in the fixity of exchange, money finds its way to India, when required, through so many other channels, and there is now in their opinion much less fear of a recurrence of a stringency in the Indian money market which was witnessed some years back. My Directors therefore anticipate that the occasions on which this Bank is likely to find it necessary to have recourse to the London market will not be frequent.

5. II. to IV.—My Directors have no further remarks to offer under these heads.

6. V. to VIII.—My Directors approve of these proposals.

7. IX.—*Further control over the operations of the Banks.*

It is observed that Government think it necessary to impose the following "restrictions on the general conduct of the Banks":—

(1) It is proposed "to require their accounts to be audited by Public Accountants.

(2) It is proposed "to require the Banks to maintain their cash balances "at a safe level, and to impose a penalty when the proportion "which those balances bear to the Bank's liabilities falls below "a fixed minimum percentage."

8. With regard to No. (1) my Directors have nothing to say.

It is manifestly in the interests of the Bank to secure the best skill available in the auditing of the account.

With regard to No. (2) it is observed that the Government of India are inclined to think that the minimum should not be lower than 35 per cent., but that "it may be found possible to draw a distinction between liabilities "at call and less urgent liabilities, such as Savings Bank deposits which "are ordinarily of a permanent character, and fixed deposits which cannot "be withdrawn without notice of three months or a longer period," and the Banks are invited to put forward any suggestion for the modification of the minimum percentage in consideration of the fixity or permanent character of the deposits.

10. Before dealing with these special points alluded to above, I am desired by my Directors to say that the question of what is a safe percentage of cash at any particular date is one which can only be satisfactorily decided by the management of a Bank, and my Directors respectfully deprecate any action on the part of Government which will interfere with the exercise of their discretion in so important a matter.

11. It is of course the first and obvious duty of a Bank to maintain such a position of strength as will enable it to meet all reasonably possible calls, and so far as this Bank is concerned my Directors desire to state emphatically that there has never been any cause for anxiety as to its position.

12. The position of a Bank is not to be gauged merely by the percentage of its cash balance to liabilities. There are many points to be considered, some of which can be known only to the management. At one time, for instance, with heavy balances belonging to Banks or other important accounts and a percentage of 40, the Bank might really be in a position no stronger than at another time when the percentage might be 30, but against deposits more largely of a stable nature.

13. It would be exceedingly difficult, if not impossible without seriously affecting the earning power of this Bank, to maintain an arbitrary fixed minimum percentage, as is suggested, and any action on the part of Government enforcing such a condition would not only be harassing to the executive of the Bank, but would be detrimental to the interests of merchants and traders, inasmuch as it would undoubtedly have the effect of forcing up the rate of interest earlier, and perhaps higher, than would otherwise be necessary.

14. My Directors will now refer to the question of Savings Bank and fixed deposits alluded to above and to Government deposits.

With regard to Savings Banks deposits, the statement already furnished to Government shows that they are of a stable nature, and that the total has increased month by month since the Savings Bank was formed in 1898. At the same time these deposits are payable on demand, and this being so, my Directors have always considered that a fair percentage of cash should be maintained against them.

15. Similarly Government deposits are payable on demand, and while my Directors think that they may reasonably expect to receive some short notice in the event of Government desiring to reduce the balance below the minimum 'set forth in the Bank's Agreement, they recognise that there is

no undertaking on the part of Government to give such notice, and the whole of the Government balance has always been treated as a demand deposit.

16. Fixed deposits on the other hand are on a totally different basis. Payment cannot be demanded until the deposits mature, and there is therefore no necessity to hold cash against such deposits while they are running. It is of course necessary to finance so that the cash balance may be replenished from time to time in such a degree as to meet all fixed deposits as they mature.

17. Government are aware from the figures which have been furnished that a large proportion of the deposits of this Bank are fixed. In order to secure such deposits it is necessary to accept the great bulk of them for the whole year round, and when it is remembered that the busy season in this Presidency (when alone such deposits can be utilised) extends to a period of about 6 or 7 months only, it will be seen that the deposits are costly, and any obligation to maintain a percentage of cash against them would necessitate a reduction in the rate of interest allowed, with the inevitable results that the deposits would go elsewhere. The Exchange Banks are keen competitors for all local business and have the great advantage of being in the position to employ their funds elsewhere when not required in this Presidency. It is necessary to state this in order to demonstrate the serious consequences to this Bank of any action compelling it to treat fixed deposits in the same manner as demand deposits.

18. In its weekly Publication Statement the Bank of Madras shows the proportion of cash held against liabilities payable *on demand*, and my directors respectfully submit that this is the only fair way to indicate the position of a Bank whose deposits are largely fixed and which, therefore, cannot be presented for payment until known dates extending over 12 months or longer.

19. A reference to the attached Statement A will show that during the year 1902 the average percentage during the first half of the year was 40·55 and for the second half, 59·01. It will be observed that on only four occasions during the year did the percentage fall below 35 per cent. and only once below 30 per cent. (29·49), while the very large percentage maintained throughout the second half of the year demonstrates what has been pointed out in paragraph 17, viz., that owing to the course of business in the Madras Presidency this Bank is under the disability of having to pay interest all the year round on deposits which can be utilised for about six or seven months only.

During the half year ending 30th June 1903 it will be seen that the percentage has only twice fallen below 40, while the average for the half year has been 47·96. The nature of certain deposits has, in the opinion of my Directors, necessitated the holding of a larger percentage than was necessary during the first half of 1902 (*vide* paragraph 12).

20. My Directors also desire to invite the attention of Government to the attached Statement B, showing the percentage of cash in hand (and with the Bank of England) to liabilities of 19 leading British Banks in 1902. It will be seen from this statement that the cash held by these Banks is proportionally much less than that held by the Bank of Madras. I am to add that a reference to the Published Statements of these Banks and of the Bank of Madras will also show that the liquid assets of the latter compare favourably with similar assets held by the British Bank named.

21. In conclusion, I am to express the hope that the foregoing remarks will satisfy the Government of India that the Directors of this Bank clearly and fully recognise their responsibility in the matter of the Bank's cash balances, and that no action interfering with their discretion will be taken by Government which my Directors submit is not only unnecessary, but would be harassing to the management and may be attended with unfortunate results.

## A.

*Bank of Madras.*

| Date | Percentage of Cash to Liabilities payable on Demand. | Date. | Percentage of Cash to Liabilities payable on Demand. | Date. | Percentage of Cash to Liabilities payable on Demand. |
|---|---|---|---|---|---|
| 1902. | | 1902. | | 1903. | |
| January 11 | 51·43 | July 5 | 47·81 | January 3 | 61·31 |
| „ 18 | 49·32 | „ 12 | 48·81 | „ 10 | 65·49 |
| „ 25 | 51·40 | „ 19 | 51·37 | „ 17 | 67·10 |
| February 1 | 48·61 | „ 26 | 50·91 | „ 24 | 62·85 |
| „ 8 | 43·15 | August 2 | 54·74 | „ 31 | 60·93 |
| „ 15 | 40·44 | „ 9 | 55·93 | February 7 | 56·92 |
| „ 22 | 37·57 | „ 16 | 57·12 | „ 14 | 47·36 |
| March 1 | 35·53 | „ 23 | 57·77 | „ 21 | 47·94 |
| „ 8 | 38·81 | „ 30 | 59·13 | „ 28 | 44·21 |
| „ 15 | 39·55 | September 6 | 58·49 | March 7 | 47·36 |
| „ 22 | 32·44 | „ 13 | 57·54 | „ 14 | 43·23 |
| „ 29 | 31·68 | „ 20 | 58·15 | „ 21 | 42·19 |
| April 5 | 29·49 | „ 27 | 60·71 | „ 28 | 45·31 |
| „ 12 | 35·01 | October 4 | 57·70 | April 4 | 46·55 |
| „ 19 | 32·85 | „ 11 | 56·65 | „ 11 | 43·73 |
| „ 26 | 37·05 | „ 18 | 58·17 | „ 18 | 45·89 |
| May 3 | 35·58 | „ 25 | 59·15 | „ 25 | 47·83 |
| „ 10 | 39·60 | November 1 | 58·26 | May 2 | 45·97 |
| „ 17 | 38·94 | „ 8 | 60·21 | „ 9 | 43·05 |
| „ 24 | 39·64 | „ 15 | 63·43 | „ 16 | 45·24 |
| „ 31 | 41·42 | „ 22 | 68·62 | „ 23 | 43·91 |
| June 7 | 38·28 | „ 29 | 69·25 | „ 30 | 40·28 |
| „ 14 | 43·03 | December 6 | 68·23 | June 6 | 36·58 |
| „ 21 | 45·46 | „ 13 | 67·07 | „ 13 | 36·03 |
| „ 28 | 48·31 | „ 20 | 65·70 | „ 20 | 41·22 |
| „ 30 | 49·88 | „ 27 | 61·59 | „ 27 | 41·03 |
| | | „ 31 | 60·92 | „ 30 | 45·52 |
| Average - | 40·55 | Average - | 59·01 | Average - | 47·96 |

## B.

*List of* 19 *Leading British Banks*, 1902.

| NAME OF BANK. | Deposits. | Cash in Hand and at Bank of England. | Proportion of Cash in Hand and at Bank of England to Deposits. |
|---|---|---|---|
| | £ | £ | |
| Child and Co. - - - - - | 2,235,653 | 355,077 | 15·88 |
| Coutts and Co. - - - - - | 7,287,193 | 582,560 | 7·99 |
| Glyn, Mills, Currie and Co. - - - | 14,085,592 | 1,846,492 | 13·11 |
| London and Westminster Bank, Ltd. - - | 25,533,413 | 4,392,282 | 17·20 |
| Robarts, Lubbock and Co. - - - | 3,334,256 | 834,962 | 25·04 |
| Capital and Counties Bank, Ltd. - - - | 23,912,944 | 3,676,891 | 15·37 |
| Lloyds Bank, Ltd. - - - - - | 52,463,423 | 9,008,410 | 17·17 |
| London and County Bank, Ltd. - - - | 44,018,364 | 8,377,530 | 19·03 |
| London and South-Western Bank, Ltd. - - | 13,005,056 | 1,897,168 | 14·57 |
| London, City and Midland Bank, Ltd. - - | 46,747,797 | 9,871,449 | 21·11 |
| London Joint Stock Bank, Ltd. - - - | 18,730,632 | 2,442,746 | 13·04 |
| Manchester and Liverpool District Bank, Ltd. - | 16,289,761 | 2,161,399 | 13·27 |
| Metropolitan Bank (of England and Wales), Ltd. - | 8,460,728 | 815,592 | 9·64 |
| National Provincial Bank of England, Ltd. - | 50,948,783 | 7,407,065 | 14·54 |
| Parr's Bank, Ltd. - - - - - - | 27,273,663 | 4,923,304 | 18·05 |
| Union of London and Smith's Bank, Ltd. - - | 25,646,752 | 5,265,018 | 20·53 |
| Williams Deacon Bank, Ltd. - - - | 11,867,425 | 1,874,003 | 15·79 |
| Bank of Ireland - - - - - | 13,576,613 | 1,048,743 | 7·72 |
| National Bank, Ltd. - - - - | 12,723,008 | 1,683,309 | 13·23 |
| Average - - | 418,141,056 | 68,464,000 | 16·37 |

The above figures are taken from the Banker's Magazine for May 1903.

Enclosure No. 9.

Dated 4th August 1903.

From G. D. Ker, Esq., Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance and Commerce Department.

My Directors understand that the Bank of Bengal has submitted, for the consideration of Government, a proposal whereby the Presidency Banks should be permitted to draw on London for the family remittance of customers up to a maximum of 200*l.* a month for any one person.

2. I am desired by my Directors to say that they concur with the Bank of Bengal in thinking that this concession would be useful, and a convenience to the customers of the Banks, and they venture to hope that it will receive the favourable consideration of Government.

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Enclosure No. 10.

Dated 19th August 1903.

From W. D. Cruickshank, Esq., Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance and Commerce Department.

In continuation of my letter of the 7th May, I have now the honour to reply to your letter No. 2265-A. of the 28th April last, enclosing copy of a memorandum specifying the proposals which the Government of India are disposed to recommend to the Secretary of State for the amendment of the Presidency Banks Act, and inviting the Directors of the Bank of Bengal to offer any remarks they desire to make on the subject.

2. The proposals are intended to increase the banking facilities in India by removing some of the restrictions placed upon the operations of the Presidency Banks, and I am desired by the Directors to tender their thanks to the Government of India for the steps they are prepared to take in this direction, and to say that the remarks they have to offer will be confined to suggestions made with the object of enabling the Banks the better to fulfil the duties and responsibilities that are imposed on them as the Central Banks in the Indian money market and thus carry out the object which Government have in view.

3. In discussing the measures devised for the purpose of enlarging the powers of the Banks, it is desirable to bear in mind the special difficulties and disabilities under which the Presidency Banks labour when compared with the Central Banks of other countries. In the letter, dated 2nd December 1899, the Directors said that since 1st March 1862, when the Presidency Banks were deprived of their note issue, their readily expandable resources had been confined to their borrowing powers, and these had been rendered of little value owing to restrictions imposed by the State. They pointed out that India is a country of seasonal trade, involving great variations in the demands for accommodation, and that in order to meet these variations properly, and at the same time to maintain a moderate and steady rate of interest, elastic banking resources are required. They said that the pressing want was a provision for expanding resources at times of pressure which would tend to adjust the supply of loanable capital to the demand both during the busy and slack seasons; and they added that until this defect is remedied, the money markets of India will be liable to oscillate between periods of stringency and periods of plethora, and trade will be hampered by corresponding fluctuation in the rates of interest.

4. Unfortunately the opportunities open to the Presidency Banks of enlarging their funds in emergencies are exceptionally limited, and their

resources are probably the most inelastic on which any large commerce is based. A bank-note issue, such as exists in the Colonies or in France and Germany, imparts elasticity in a high degree to the working capital of the issuing banks; but the Presidency Banks are not allowed to issue notes. Facilities for the prompt import and export of foreign capital aid in the expansion and contraction of the Central Banking Fund; but the Presidency Banks have hitherto been prohibited from importing foreign capital. When the State cash balances are deposited entirely with the Central Banks, demand and supply in the money market in connection with taxation are immediately adjusted. At the Bank of England the "Other Deposits" decrease in March, because Government demands are heavy at that time, whilst in July "Other Deposits" increase, because Government disbursements are large; but the money market is little affected on either occasion, because as long as the State balances are deposited solely in the Banks which hold the spare funds of the community, State payments and receipts can be effected by transfers without disturbing the money market to any great extent. In India this compensatory action, this elasticity of supply relatively to demand, is wanting, because the Government of India aim at keeping their deposits with the Banks at a low approximate level all the year round. The result is that when the State balances in the Reserve and other Treasuries outside the Banks run up, the deposits at the Banks run down, causing undesirable variations in the Presidency Banks' balances and rates of interest. This defect will be discussed more fully later on; but I am desired to state that the Directors of the Bank of Bengal much regret that the proposed legislative measures deal definitely with matters of minor importance only, while the one measure proposed with the object of enabling the Banks to increase their resources at times of pressure is hampered by conditions which make the process tardy and expensive. The concession to be granted is power to borrow in London. It is understood that, subject to adequate provision being maintained for the disbursements of the Government of India and for Council drawings, loans may be granted to the Presidency Banks from the Reserve Treasuries for fixed periods at high rates of interest; but the Banks have not been encouraged to look upon that source of supply as a reliable one under all circumstances, as a final resort for money should be, and it rarely suits them to borrow for a prolonged period at a high rate.

*I.—Borrowing in London.*

5. The proposal is that borrowing in London shall only be allowed when the Indian Bank rate rises above a fixed limit, 7 or 8 per cent. being suggested; and I am instructed to point out that in a country, such as India, where demands on the money market arise suddenly, it appears imprudent to prevent the Central Banks borrowing until pressure has arisen, especially as the Central Banks, as custodians of the general banking funds, are in the best position to feel and foresee the approach of pressure, and should therefore in the general interest be empowered to take timely measures to provide fresh supplies of money. For the first time since the withdrawal of their note issue in 1862, it is proposed to confer upon the Presidency Banks power to operate directly for this purpose; but if borrowing operations are to be postponed in the manner suggested, the Banks will be seriously hampered in making use of the concession.

6. It may be said that the delay is of little consequence, as prompt relief can generally be obtained by the medium of Council telegraphic transfers; but this is an expensive form of remittance, and as at times of pressure sterling exchange is usually at its maximum, the Presidency Banks, if obliged to buy transfers, will be condemned not only to import funds at a high level, but in an expensive form. They will be doubly handicapped; and, if the pressure in India is short lived, the loss to the Presidency Banks will be heavy, as the interest earned would be small and the exchange loss on the return of the funds to London considerable. Under the existing Currency legislation there is only one really reliable method of transferring money

from London to India, viz., by importing sovereigns; and as such imports cannot be effected in less than a month, the Directors are of opinion that the legislation conferring power upon the Presidency Banks to import funds should be framed in accordance with the Currency legislation, and should allow the Banks to borrow in London at least one month before they anticipate pressure in India.

7. As the import and export of capital will be conducted under the supervision of the Comptroller-General, the Directors can see no objection to the Banks being given a free hand, subject to this supervision, to time their borrowings in London as they think fit, and they submit that it is undesirable to prohibit the import of funds from London until the Indian Bank rate reaches a high level. They are ready to admit that it is desirable in the interests of India, as a whole, that foreign capital should not be imported as long as local capital is seeking employment at reasonable rates; but it is clearly to the advantage of the Presidency Banks to secure all capital of this kind before importing foreign capital, as the former, if left in the market, would compete with the latter. Or if it is employed for surplus State balances that is sought, all that is necessary is to prohibit the Presidency Banks from borrowing in London as long as Government are prepared to lend. It is said that it is not intended to encourage a resort to the London market as a speculative measure in anticipation of a deficiency of loanable capital; but the Directors maintain that owing to distance from London and the large and abrupt nature of the demands for accommodation in India, it is necessary to anticipate a deficiency in order to prevent one. Speculations in exchange for a rise or fall are a different class of operations. The Directors have no desire to engage in such operations, and they hold that the Presidency Banks will be unable to embark in them as long as they are prohibited from borrowing in London and from importing and returning the funds except with the approval of the Comptroller-General.

8. There is one aspect of this proposal which the Directors think it right to mention, not because there is any danger of any of the Banks neglecting their duties to the public, but because they consider it desirable that legislation should not be framed in a manner that might afford inducements to the Presidency Banks to depart from their ordinary lines of action. One of the special duties of the Presidency Banks is to regulate the Bank rate in accordance with the requirements of the market; but under the proposed rule the Banks might be induced to raise the rate prematurely, in order that they might import foreign capital by Council Bills and other cheap, but dilatory methods, and thus avoid the loss which would be incurred by buying wire transfers in London at the actual times of pressure. The Directors think it desirable that these cheaper forms of remittance should be open to the Presidency Banks without a premature rise in the Bank rate, and they would therefore urge that the Government proposal should be modified.

9. As an alternative to the Government proposal, my Directors would suggest either that the Presidency Banks be given a free hand to borrow in London whenever they deem it necessary, or whenever are able to satisfy the Comptroller-General that an import of capital is desirable.

*II.—Extension of the Bank's Power to deal in Securities.*

10. The Directors welcome the concession made in this direction, and think that the Presidency Banks might be allowed to buy or advance upon debentures issued by Native States, subject to the previous sanction of the Government of India to each transaction of the kind.

*III.—Extension of the Period for making Advances.*

11. The extension from three to six months is approved, and the Directors think it might be made in the case of advances against personal security, as well as against tangible security.

*IV.—Increase of the Limit for Overdrafts.*

12. The proposed increase from Rs. 2,000 to Rs. 10,000 is welcomed by the Directors.

*V.—Removal of the Maximum Limit of the Banks' Capital.*

13. No exception is taken to the repeal of the proviso to section 14, which fixes a maximum limit for the capital of each Bank.

*VI.—Taking over the Business of other Banks.*

14. My Directors approve of the proposal to empower the Bank to take over the business of any other Bank with the previous sanction of Government; but they think that some provision should be made to give the Bank Directors liberty of action in an emergency, failing a prompt reply from Government, as in times of crises it is necessary to act promptly. They presume that the Directors of a Presidency Bank will be at liberty to take over at any time the business of another Bank, provided that such business is limited to that which is authorised by the Presidency Banks Act, and that the transfer can be arranged without increasing the capital of the Presidency Bank, *e.g.*, by paying the shareholders of the absorbed Bank out of the Reserve Fund of the absorbing Bank. A provision to this effect might be inserted in the amended Act.

*VII.—Advances on Joint Promissory Notes.*

15. The Directors are glad to hear that their proposal has been accepted by Government.

*VIII.—Loans to the Courts of Wards.*

16. It is presumed that these advances may be made for any period up to six months on the demand promissory note of the officer in charge of the Wards Estate with pledge of the assets of the estates, and, if so, a clause to this effect should be inserted in the Act.

*IX.—The Bank's Accounts to be audited by Public Accountants.*

17. It is already the practice of the Bank to employ Public Accountants for this purpose.

*X.—The Banks to be bound to maintain a Minimum Proportion of Cash to Liabilities, or to pay Fines on a Sliding Scale varying inversely to the Percentage of Cash.*

18. It is proposed to require the Banks to maintain their cash balances at a safe level, and to impose a penalty when the proportion which those balances bear to the Banks' liabilities falls below a fixed minimum percentage. The form of penalty suggested is the payment of a fine to the Government at so much per cent. on the deficiency of the cash balances below the minimum percentage. The following rates are suggested :—

(*a*) When the ratio of cash to liabilities is below 35 per cent., but not below 30 per cent., at 1 per cent. on the sum required to raise it to 35 per cent;

(*b*) When the ratio is below 30 per cent., but not below 25 per cent., at 5 per cent. on the sum required to raise it to 30 per cent, and at 1 per cent. on the further sum required to raise it to 35 per cent.;

(*c*) When the ratio is below 25 per cent., but not below 20 per cent., at 10 per cent. on the sum required to raise it to 25 per cent., at 5 per cent. on the sum required to raise it from 25 to 30 per cent., and at 1 per cent. on the sum required to raise it further from 30 to 35 per cent.; and so on.

19. The chief objection to this proposal is that it will hamper the Banks in carrying out one of their most important duties as Central Banks, viz., to advance largely at times of severe monetary pressure. At such times a high rate of interest is desirable; but a prohibitive fine of 5 or 10 per cent. would be most detrimental to the interest of the commercial community, as the Presidency Banks would be obliged to withhold or even withdraw accommodation at the very time it was urgently required. Under the German system, which is very generally approved, the Central Bank is charged 5 per cent. when its reserves fall below a prescribed limit; but in return for the 5 per cent., funds in the shape of notes are placed at the Bank's disposal in order to enable it to advance freely to relieve the pressure for accommodation. The Bank is fined for failing to preserve an adequate reserve; but the fine is in the form of an interest allowance and the public do not suffer. Under the system proposed for India, the Banks will be fined up to 10 per cent. or more, and no funds will be placed at their disposal in return. The fine will force them to press the public at the very time the public should have large accommodation placed at their disposal. The Directors would therefore with all deference desire to enter a protest against this proposed measure, as they believe it to be unprecedented, unsuitable and detrimental to the public interest.

20. As an alternative proposal the Directors would suggest that the Presidency Banks might be bound when funds are available in the Government treasuries to maintain the desired percentage by borrowing from Government at the Bank rate with a minimum of 6 per cent. per annum: when no such funds are available, the Presidency Banks might be bound to buy Council transfers or transfers on the Currency Reserve under the Gold Note Act from the Secretary of State at a rate $\frac{3}{64}$ths over the rate at which Council Bills were sold on the preceding Wednesday. Taking the difference in the time of arrival of Council Bills and transfers to be 17 days, the $\frac{3}{64}$ths is equivalent to interest at the rate of $6\frac{1}{4}$ per cent. per annum. My Directors are confident that funds will always be available either in the Treasuries or in the Currency Reserve; but if both these reserves should fail at any time, they would urge in the interest of the public that the Banks be allowed to include in their percentages funds borrowed by them in London for despatch to India or on the way to India. Bank cash reserves are maintained in order that they may be available for use in emergencies; and a scarcity of funds in the Government reserves would appear to justify a temporary reduction in the Bank cash balances. By way of illustration it may be mentioned that the National Banks in New York are allowed 30 days to adjust any deficiency in their reserves below the prescribed minimum of 25 per cent., and the Indian Banks appear entitled to longer time for adjustment, as they are more distant from London.

21. It is also thought that the percentage at the beginning of the busy season should be greater than at its close. If the percentages in May and June are not allowed to fall below the figure that is deemed necessary in December, the Presidency Banks will be obliged to import unnecessary capital themselves or to fix rates which will induce other Banks to import surplus funds, and thus create a plethora of capital in the autumn, thereby saddling India with the double expense of importing and re-exporting funds which are not required.

22. I am further desired to submit that a minimum of 35 per cent. of cash to liabilities is too high for Banks, which work to a considerable extent with Savings Bank funds and deposits fixed for periods varying from 3 to 12 months. It is generally recognised that Savings Bank deposits require a comparatively small reserve, and no reserve is needed for the fixed deposits

until the approach of the date fixed for repayment. The interest charge payable on these deposits is comparatively heavy, seeing that only a very small proportion can be employed in the slack season, and no Bank can afford to work with them if it is forced to keep a large percentage of them unemployed in the busy season. I am accordingly to express the hope that, in the event of this proposal being carried into effect, such deposits may be excluded in calculating the percentages; or at all events that all such deposits may be excluded, except those falling due within a month.

23. It is understood that Government do not intend to publish the figure they fix upon as the approved minimum percentage; but the Directors are of opinion that all efforts to keep back this information will fail, and they consider there is every reason to fear that the proposed minimum, if unaccompanied by reliable provisions for enabling the Banks to expand their resources promptly will create apprehensions in the public mind whenever the minimum is approached; and if large and sudden demands on the money market are expected at the time, a monetary crisis may occur.

*Government Deposits.*

24. My Directors are pleased to see that in fixing a percentage of cash to liabilities to be maintained by the Banks, Government recognise that an allowance should be made for deficiencies caused by the withdrawals of Government deposits, but they think that the figures selected as the normal minima for the Government deposits require further consideration. The suggestion is that the normal minima for the Government deposits be taken at the following figures :—

| | | |
|---|---|---|
| In the Bank of | Bengal | 150 lakhs. |
| Ditto | Bombay | 100 „ |
| Ditto | Madras | 50 „ |

and that any shortage in the percentage shall be disregarded to the extent to which the deficiency in the Bank balance is caused by any drop in the Government deposits below those minima.

25. I am directed to point out that the Government balances were originally placed in the Presidency Banks in part compensation for the withdrawal of the Bank's note issues, the proportion of the minimum deposit assigned to each being based on the average note circulation; also that in their letter No. 3,566, dated 22nd September 1875, the Government of India informed the Banks that they would ordinarily not leave with the head-quarters of the Banks, otherwise than temporarily, more than the following sums, viz. :—

| | | Rs. |
|---|---|---|
| Bank of | Bengal | 1,00,00,000 |
| Ditto | Bombay | 50,00,000 |
| Ditto | Madras | 30,00,000 |

26. My Directors beg to submit that in fixing the minimum Government balances to be taken as the basis of the calculation of the shortage above referred to, it is essential to an equitable settlement of the amounts to be apportioned to each Bank that the following very important factors in the case should receive careful consideration :—

(1) The average note circulation of the Banks for the withdrawal of which the Government deposits were intended to be compensation in part;

(2) The Capital of the Banks;

(3) The number of Branches of each Bank at which the Government work is carried on;

(4) The amount of work done by the Bank for Government at Head Office and Branches, as indicated by the annual summations of the Government Accounts.

27. The Government are already in possession of information on all these points; and if due consideration is given to the figures, my Directors are confident that it will be recognised that the Bank of Bengal is entitled to a larger minimum than 150 lakhs, and they desire me to say that in their opinion it should not be fixed at less than 200 lakhs.

28. I am also desired to refer to the suggestion submitted demi-officially by Mr. A. M. Lindsay, Deputy Secretary and Treasurer of the Bank, in May 1901, and to invite the Government to consider whether it would not be advisable to fix upon a higher level for the Government Deposits at the Head Offices of the Banks in the busy trade season, and a lower level for the slack season, instead of adopting one approximate level for all the year round. The latter system would answer if the cash balances of the Bank and the cash balances of the Government were fairly steady; but they are subject to great variations, and the important point is that the Treasury balances are at their highest during the busy trade season from January to June, when the Bank balances are at their lowest; and from July to December, when trade is slack and the Bank balances are heavy, the Treasury balances are in most need of replenishment. The proposal my Directors have to make is one of mutual accommodation to Government and the public. It is that the average deposits be raised 50 per cent. during the months of January to June, and reduced 50 per cent. during the months of July to December. The change will increase the resources of both Government and the Banks, because it will place additional sums in their possession at the time they each require them. It will reduce the Bank rate during the busy season and will tend to steady the rate all the year round.

*Home Remittances of Moderate Amounts for Customers.*

29. In addition to the proposed alterations enumerated above, I am desired to bring to your notice that it would be a great convenience if sanction were accorded to the Presidency Banks to draw sterling drafts on London in the case of the Home remittances of their customers. The present inability to do so is often prejudicial to the Banks' current account business. In seeking permission to engage in such transactions, my Directors desire me to point out that they have no wish to embark in trade exchange operations, and that, if considered desirable, the concession they ask might be granted subject to a limit of say 200*l.*, being imposed on remittances in any one month on behalf of any particular individual.

*Diagrams.*

30. In order to show clearly what is needed to improve the existing legislation regarding the Presidency Banks, I am instructed by the Directors to enclose two diagrams which exhibit at a glance the monthly fluctuations in the deposits, advances, investments and cash balances of the Presidency Banks since the beginning of 1896; also the fluctuations in the cash balances of the Government of India and of their deposits with the Presidency Banks during that period.

31. It is submitted that the large increase in the advances of the Presidency Banks each spring, accompanied frequently by a drop in their deposits, shows that additional borrowing power would be advantageous at that time, and that, looking to the abrupt nature of these demands, it appears undesirable to hamper the Presidency Banks in their efforts to make timely provision to adjust the supply of capital to demand at that period. It is also evident from the extent and abruptness of these demands that serious inconvenience might be caused by forcing the Banks to raise their percentage of cash to liabilities at times of pressure when they have no means of doing so otherwise than by curtailing advances or by incurring prohibitive expense. I have also to invite attention to the low level of the Government Deposits as compared with other deposits, as well as with the Treasury balances outside the Banks, and in particular I have to ask the Government

of India to note how their cash balances rise just as the Bank advances rise, and how easily their deposits with the Banks might be adjusted to the requirements of the money market instead of being kept at a uniform low level. It should also be noted that while the Presidency Banks have strengthened their position of late by increased deposits and otherwise, it is clear from the wide divergence between deposits and advances in slack seasons, that the great defect in the Indian Central Banks system is the absence of elastic resources which will expand and contract in accordance with the demands for accommodation, and it is hoped that the contemplated reforms will include remedies for this defect.

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Enclosure No. 11.

No. 205-A, dated the 11th January, 1904.

From R. A. Mant, Esq., I.C.S., Under-Secretary to the Government of India, Finance and Commerce Department, to the Secretary and Treasurer, Bank of Bengal; the Secretary and Treasurer, Bank of Bombay; the Secretary and Treasurer, Bank of Madras.

I am directed to refer to the correspondence ending with your letter (No. 151), dated the $\frac{\text{19 August 1903}}{\text{9 July 1903}}{\text{13 July 1903}}$ regarding certain proposals, which are under the consideration of the Government of India, for amending the Presidency Banks Act with a view to extending the operations of the Presidency Banks.

2. The proposals, which the Government of India were disposed to recommend to the Secretary of State, were summarised in my letter No. 2265-A, dated 28th April 1903. In consequence of the representations which have since been received from the Banks, the Government are now willing to modify those proposals to the extent indicated below before submitting the matter to the consideration of the Secretary of State.

3. *Appointment of Auditors.*—The Government of India proposed, in my letter above cited, to require the accounts of the Banks to be audited by public accountants. It has been represented that in India there is no recognised test of what constitutes a public accountant. The Government of India therefore propose, in lieu of their original proposal, to take power to annul any particular election of auditors which may have been made under section 47 of the Act.

4. *Maintenance of a Minimum Proportion of Cash to Liabilities.*—Having considered the representations made on this question by the representatives of the Banks, the Government of India now propose to require the Banks to hold cash amounting to not less than 40 per cent. of their deposits at call (excluding Savings Bank deposits) and an additional sum amounting to not less than 25 per cent. of the deposits which are payable, not at call, but within three months of the date on which the account is made up. It is not proposed to prescribe a minimum cash reserve against Savings Bank deposits or against deposits which are not payable within three months.

5. The Government of India further propose that, in the event of the cash balance of any of the Presidency Banks falling below the prescribed minimum, the Bank shall be required to make good the deficiency, within such time as the Government may direct, either—

(1) by taking a loan from the Government at 8 per cent. or at bank rate, whichever may be the higher, or

(2) by depositing gold with the Bank of England in London, and, if so required by the Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State in London.

6. It must be distinctly understood with reference to the proposals in the foregoing paragraph, that the Government of India do not contemplate in any circumstances undertaking an obligation to advance money to the Banks, either at 8 per cent. or at any other rate of interest. In the event, however, of Government refusing to make a loan in the circumstances indicated, the Banks will have the alternative of borrowing in London the amount required to enable them to fulfil the obligation which it is proposed that they should accept.

7. It is proposed that the measures indicated in paragraphs 4 and 5 of this letter should not at present be effected by legislation, but should be incorporated in a special contract to be concluded with each Presidency Bank. In this contract the Government of India would take power to order an examination into the affairs of any Presidency Bank which, having allowed its cash balances to fall below the prescribed minimum, fails to replenish them in the manner indicated in paragraph 5.

8. In connection with these proposals I am to enclose, for the information of your Directors, an extract from the law which regulates the administration of National Banking Associations in the United States of America, and which provides, in circumstances similar to those now under consideration, for the appointment of a receiver to wind up the business of the association. While not desiring to resort to such an extreme step in India, the Government of India feel it to be necessary to take some power to ensure compliance with whatever measures may be determined to be necessary for the proper regulation of the business of the Presidency Banks.

9. I am to request that any observations which the Directors of the Bank of $\frac{\text{Bengal}}{\text{Bombay}}$ $\frac{}{\text{Madras}}$ may wish to offer on this letter may be submitted at as early a date as may be convenient.

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*Section 95 of the National Bank Act.*

95. Reserve not maintained. (Section 5191.) Whenever the lawful money of any association in any of the cities named shall be below the amount of 25 per centum of its deposits, and whenever the lawful money of any other association shall be below 15 per centum of its deposits, such association shall not increase its liabilities by making any new loans or discounts otherwise than by discounting or purchasing bills of exchange payable at sight, nor make any dividend of its profits until the required proportion between the aggregate amount of its deposits and its lawful money of the United States has been restored. And the Comptroller of the Currency may notify any association, whose lawful money reserve shall be below the amount above required to be kept on hand, to make good such reserve; and if such association shall fail for 30 days thereafter so to make good its reserve of lawful money, the Comptroller may, with the concurrence of the Secretary of the Treasury, appoint a receiver to wind up the business of the association, as provided in section 5234.

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Enclosure No. 12.

Dated the 29th February 1904.

From the Secretary and Treasurer, Bank of Bengal, to the Under-Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 205-A, dated 11th instant, in which you refer to the correspondence regarding certain proposals now under consideration of the Government of India for amending the Presidency Banks Act with a view to extending the operations of the Presidency Banks, and intimate that in consequence of the representations which have been received from the Banks, the Government are willing to modify those proposals, to the extent which you indicate, before submitting the matter to the consideration of the Secretary of State.

Your letter has been considered by the Directors of the Bank, who have directed me to reply as follows :—

APPOINTMENT OF AUDITORS.

In the summary of proposals which accompanied your letter No. 2265-A., dated 28th April 1903, the Government of India intimated that it was proposed to require the audit of the Bank's accounts by Public Accountants, at the same time explaining that it was not intended to revoke the power of selection possessed by the Banks under Section 47 of the Presidency Banks Act, but merely to limit the field of selection.

The Directors readily agreed to this proposal, as it had been the Banks' practice for many years to employ Public Accountants as Auditors, and no difficulty had been experienced in finding candidates qualified in every respect for the appointment.

You now inform the Bank that it has been represented that in India there is no recognised test of what constitutes a Public Accountant, and that the Government of India therefore proposed to take power to annul any particular election of Auditors which may have been made under Section 47 of the Act.

The Directors are aware that in India the position and qualifications of Public Accountants are not defined as they are in Great Britain by the Rules of the institution under which they work, but they beg to point out that in Calcutta the number of practising Public Accountants who have passed the test of the Chartered Institute of Accountants in England and Wales, or the Society of Accountants in Edinburgh, Glasgow and Aberdeen, and who are members of one or other of those institutions, is sufficient to afford the shareholders of the Bank an adequate field for the selection of thoroughly capable and suitable Auditors. I am to submit, therefore, that in taking power to annul any particular election of Auditors which may have been made under Section 47 of the Act, the intention of Government as explained in the proposals above quoted—not to revoke the power of selection possessed by the shareholders, but merely to limit the field of selection to Public Accountants—should be an integral part of the proposed amendment.

VARIOUS SUGGESTIONS BY THE BANK.

I am further desired to bring to your notice that, since the receipt of the proposals conveyed in the Government of India's letter No. 2265-A., of the 28th April 1903, my Directors have made the following suggestions which, if accepted by Government, would require to be given effect by legislation, and I beg to submit them again for ready reference in the hope that they will receive favourable consideration. They are set forth in the following extracts from my letter of 19th August last to the Financial Secretary to the Government of India :—

EXTENSION OF THE PERIOD FOR MAKING ADVANCES.

"The extension from three to six months is approved, and the Directors think it might be made in the case of advances against personal security, as well as against tangible security.

TAKING OVER THE BUSINESS OF OTHER BANKS.

"My Directors approve of the proposal to empower the Bank to take over the business of any other Bank with the previous sanction of Government; but they think that some provision should be made to give the Bank Directors liberty of action in an emergency, failing a prompt reply from Government, as in times of crises it is necessary to act promptly. They presume that the Directors of a Presidency Bank will be at liberty to take over at any time the business of another Bank, provided that such business is limited to that which is authorised by the Presidency Banks Act, and that the transfer can be arranged without increasing the capital of the Presidency Bank.

*e.g.*, by paying the shareholders of the absorbed Bank out of the Reserve Fund of the absorbing Bank. A proviso to this effect might be inserted in the amended Act.

HOME REMITTANCES OF MODERATE AMOUNTS FOR CUSTOMERS.

"In addition to the proposed alterations enumerated above, I am desired to bring to your notice that it would be a great convenience if sanction were accorded to the Presidency Banks to draw sterling drafts on London in the case of the Home remittances of their customers. The present inability to do so is often prejudicial to the Bank's current account business. In seeking permission to engage in such transactions, my Directors desire me to point out that they have no wish to embark in trade exchange operations, and that, if considered desirable, the concession they ask might be granted subject to a limit of, say, 200*l.*, being imposed on remittances in any one month on behalf of any particular individual."

MAINTENANCE OF A MINIMUM PROPORTION OF CASH TO LIABILITIES.

In lieu of the second proposal made by the Government in Section 9 of the memorandum enclosed in your letter No. 2265-A. of 28th April 1903, the Government of India now propose to require the Banks to hold cash amounting to not less than 40 per cent. of their deposits at call (excluding Savings Bank deposits) and an additional sum amounting to not less than 25 per cent. of the deposits which are payable within three months.

I am directed to point out that there is no precedent for requiring such a high percentage, to respectfully represent that such percentage is excessive, and to suggest, as an alternative, an all-round minimum proportion of cash to liabilities of 33 per cent. on liabilities payable at call and within one month of the date on which the accounts are made up, but excluding Savings Bank deposits and Fixed deposits which are not payable within one month.

The Government of India further propose that, in the event of the cash balance of any of the Presidency Banks falling below the prescribed minimum, the Bank shall be required to make good the deficiency within such time as the Government may direct, either—

(1) by taking a loan from the Government at 8 per cent. or at Bank rate, whichever may be the higher; or

(2) by depositing gold with the Bank of England in London and, if so required by the Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State in London.

My Directors assume that this proposal does not in any way affect proposal No. 1 in the memorandum above referred to (received with your letter of 28th April 1903), which reads as follows :—

(1) *Borrowing in London.*—It is proposed to give the Banks the power to borrow in London when the Bank rate in India rises above a certain point.

It is considered desirable to allow the Banks to have access to the London market at times when there is a real deficiency of loanable capital in India; and it is not intended to encourage resort to that market, as a speculative measure, in anticipation of such a deficiency. It is therefore proposed that borrowing in London should be allowed only when the Indian Bank rate rises above a fixed limit. As at present advised, the Government of India consider that 7 or 8 per cent. will be a suitable figure for this limit.

Briefly stated, the effect of the two proposals is as follows :—

(1) *Proposal of 28th April* 1903.—At times when there appears to be a deficiency of loanable capital in India, although the cash balance of any of the Presidency Banks has not fallen below the prescribed minimum, the Directors shall be allowed to borrow in London, provided the Bank rate has risen above a fixed limit of

7 or 8 per cent., which the Government of India consider a suitable figure.

(2) *Proposal of 11th January* 1904.—At times when there is a deficiency of loanable capital in India, and the cash balance of any of the Presidency Banks has fallen below the prescribed minimum, the Presidency Bank concerned shall be required to make good the deficiency either by taking a loan from Government at 8 per cent. or at Bank rate, whichever may be higher, or (in the event of a loan being refused) by depositing gold in the Bank of England in London and, if so required by Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State.

*Proviso.*—The Government of India do not contemplate in any circumstances undertaking an obligation to advance money to the Banks at 8 per cent. or any other rate of interest.

Although not so stated, it is assumed that in proposal No. 1, as in proposal No. 2, it is not intended that the Banks shall be permitted to borrow in London until they have been unsuccessful in an application to the Government of India for a loan.

The Directors desire me to point out that there is practically no difference between the conditions of optional borrowing when the cash balance exceeds the prescribed minimum, and those of compulsory borrowing when the cash balance has fallen below that minimum, and I am to respectfully submit, in the interests of the public as well as in the Bank's interest, that when the Directors foresee a scarcity of money and high rates of interest, they should be at liberty to take timely measures to meet the public demands. I am therefore to propose that the Directors should be free to act when the Bank rate has reached 6 per cent.

In dealing with the several proposals of the Government of India the Directors have been actuated by a desire to acquiesce in them as far as possible, in the hope that an early settlement of the questions which have been the subject of correspondence for a number of years may be arrived at, and I am to express their hope that the suggestions now submitted will be accepted by Government.

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Enclosure No. 13.

No. 183, dated the 10th March 1904.

From the Secretary and Treasurer, Bank of Bombay, to the Under-Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 205-A., dated 11th January last, which has received the most careful consideration of my Directors.

Before stating their views on the modified proposals therein submitted to them, my Directors desire again to beg that the advisability of requiring them to maintain a specified proportion of the Bank's liabilities in cash may be reconsidered. As the Bank does not possess the right to issue notes the suggestion would appear to have been made for the purpose of protecting depositors. But, as formerly intimated, my Directors are of opinion that all depositors are already well protected against loss, and they regret they are unable to agree that any further protection is called for. By the Presidency Banks Act the employment of the Bank's funds, including all deposits, is restricted in a way and to an extent that is very unusual while the Bank's position is published in a Statement of Affairs issued weekly. Moreover large sums have been set aside from time to time for the purpose of accumulating a Reserve Fund which, in combination with the Bank's Capital, forms substantial and sufficient security against loss so far as depositors are concerned. My Directors are, therefore, of opinion that there is no occasion for the additional measure of protection for depositors which has been proposed.

It seems to my Directors that the shareholders' interests have not been sufficiently considered in connection with this suggested further restriction on the Bank's working. As above indicated, in addition to the protection afforded to depositors by the provisions of the Presidency Banks Act with respect to the manner in which the Bank's funds may be employed and by the Bank's Capital, a large Reserve Fund has been accumulated from profits which in compliance with the provisions of the Act has been invested in public securities yielding a comparatively small return in interest. The necessity for thus investing the Reserve Fund instead of permitting its investment in the other forms of employment authorised for the Bank's other resources, as is usual, operates to the disadvantage of the Bank and the shareholders amongst whom a strong and growing feeling exists that the restriction with respect to the investment of the Reserve Fund moneys should be removed. This feeling will be strengthened if the proposed further restriction is imposed. My Directors, therefore, desire to suggest that if Government press the proposal they will at the same time amend the section of the Act relating to the investment of the Reserve Fund in such a way as to leave the Directors discretion to use the money in any of the forms of investment permitted by the Act for the Bank's other resources.

Coming now to the modified proposals submitted for their consideration my Directors have nothing to say in the matter of the new proposal respecting the appointment of Auditors.

With regard to the suggested percentages of liabilities to be held in cash, my Directors regret they are unable to assent to the requirement that the Bank should hold 25 per cent. of the deposits which are payable not at call but within three months of the date on which the account is made up. They are unable to admit for reasons formerly given that such a provision is at all necessary. They regard the proposal as unsound in principle, and in their opinion it would be found in practice to be too expensive to permit of long dated fixed deposits being regularly employed.

With regard to the suggested minimum of 40 per cent. in cash against deposits at call (excluding Savings Bank deposits) combined with additional cash equal to 25 per cent. of deposits payable not at call but within three months of the date on which the account is made up, my Directors are of opinion that if the minimum cash is to be fixed on the basis stated the percentage in both cases should be much lower. As already mentioned they look upon a reserve against fixed deposits as superfluous. They also look upon the fixed point of 40 per cent. against the call money indicated as too high for a minimum. In their opinion, which they state with all deference but with firm conviction, it is impolitic to fix any minimum. The amount of such money which may safely be employed is a question which can be properly settled only with due regard to the nature of the deposits, which naturally changes from time to time. In the case of this Bank the Directors are satisfied that a much lower reserve than 40 per cent. might safely be taken as a fixed minimum. They accordingly desire to represent that in their opinion if a minimum limit is to be fixed a percentage of 30 would be safe without the addition of any reserve against any deposits fixed up to particular dates and not due.

The Government of India further propose that in the event of the cash balance of any of the Presidency Banks falling below the prescribed minimum the Bank shall be required to make good the deficiency within such time as the Government may direct, either—

(1) by taking a loan from the Government at 8 per cent. or at Bank rate whichever may be the higher, or

(2) by depositing gold with the Bank of England in London, and, if so required by the Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State in London;

and it is explained that Government do not contemplate undertaking an obligation to advance money to the Banks either at 8 per cent. or at any other rate of interest, but that in the event of Government refusing to make a loan in the circumstances indicated the Banks will have the alternative of borrowing in London the amount required to enable them to fulfil the obligation proposed.

My Directors are of opinion that the rate of 8 per cent. or Bank rate, whichever may be higher, is too high as a minimum and they desire to represent that 6 per cent. or Bank rate, whichever may be higher, would be sufficiently restrictive for all practical purposes.

The Government of India further propose that the requirement as to a minimum percentage of liabilities to be held in cash and as to making good a deficiency should not at present be effected by legislation but should be incorporated in a special contract to be concluded with each Presidency Bank, and also that in this contract Government would take power to order an examination into the affairs of any Presidency Bank which having allowed its cash balances to fall below the prescribed minimum fails to replenish them in the manner indicated.

My Directors will be glad to consider this contract when a copy is submitted to them.

In connection with the Government proposals an extract from the National Bank Act of the United States of America is appended to your letter and in paragraph 8 attention is drawn to the fact that that Act provides in circumstances similar to those now under consideration for the appointment of a Receiver to wind up the business of the Association, and it is added that while not desiring to resort to such an extreme step in India, Government feels it to be necessary to take some power to ensure compliance with whatever measures may be determined to be necessary for the proper regulation of the business of the Presidency Banks. My Directors regret they are unable to agree that the National Bank Act of the United States can properly be evidenced as supporting any of the present Government proposals, because the circumstances under which the National Banks are organised and work in the United States differ materially from those affecting the Presidency Banks. The National Bank Act appears to have been passed to provide a national currency secured by a pledge of United States Bonds and to provide for the circulation and redemption thereof, and the regulations to which attention is now drawn would seem therefore to have been laid down because the Banks have the right to issue notes. Moreover the National Banks are very numerous. They numbered 4,226 on 30th September 1901 and many of them work with a capital of $25,000, say 5,000*l.* each, the average capital on the date mentioned being only about 30,000*l.* for each Bank. Under these circumstances my Directors regret they are unable to discern any appropriate analogy between those National Banks and the Presidency Banks in this country, seeing the latter do not issue currency notes, while they each possess large Capital and Reserve Funds.

In conclusion, my Directors desire to take this opportunity to revert to the first proposal for the amendment of the Presidency Banks Act contained in the memorandum which accompanied your letter No. 2265-A., dated 28th April 1903, and to say that in their opinion the proposal requires further consideration. It was proposed to allow the Presidency Banks power to borrow in London only when the Indian Bank rate was above 7 or 8 per cent. In the opinion of my Directors the power will be of real utility only if it can be exercised when interest is at a lower level than 7 or 8 per cent., and they think that they should be empowered to borrow in anticipation of a demand for accommodation instead of waiting until the demand is experienced and rates are forced to the level named.

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Enclosure No. 14.

No. 122-4 G. P. L., dated the 30th March 1904.

From the Acting Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 205-A., of the 11th January 1904, stating that, in consequence of the representations which have been received from the Banks, Government are willing to modify to the extent therein indicated the proposals which are now under their

consideration for amending the Presidency Banks Act with a view to extending the operations of the Presidency Banks.

These modified proposals have received the careful consideration of my Directors, and I am desired to submit for the consideration of Government the following remarks thereon.

(2) *Appointment of Auditors.*—My Directors have nothing further to say in regard to this proposal. It is manifestly in the interests of the Bank to secure the best skill available in the auditing of the accounts.

(3) *Maintenance of a Minimum Proportion of Cash to Liabilities.*—It is observed that Government now propose to require the Banks to hold cash amounting to not less than 40 per cent. of their deposits at call (excluding Savings Bank deposits), and an additional sum amounting to not less than 25 per cent. of the deposits which are payable, not at call, but within three months of the date on which the account is made up.

My Directors entered fully into the question of maintaining a reserve against fixed deposits in their last letter, and they see no reason to modify the views they expressed on that occasion. They are of opinion that there is no necessity to hold cash against deposits which are fixed and not due, and that any action in this direction would seriously affect the earning powers of this Bank.

As regards liabilities payable on demand, the position of a Bank is not to be gauged merely by the percentage of its cash balance to liabilities. There are many other points to be considered which can only be known to the Executive. My Directors would therefore respectfully deprecate any action on the part of Government in the shape of enforcing a fixed minimum which would be detrimental to the interests of trade, inasmuch as it would have the effect of forcing up the rate of interest sooner than would otherwise be necessary.

In any case they consider the proposed minimum of 40 per cent. too high, and they would submit that a cash reserve of 30 per cent. against liabilities payable on demand excluding deposits which are fixed and not due, would provide a sufficient margin of safety.

Government further propose that in the event of the cash balance falling below the prescribed minimum the Bank shall be required to make good the deficiency—

(1) by taking a loan from Government at 8 per cent. or Bank rate, whichever is higher, or,

(2) by depositing gold with the Bank of England, and if so required by expending such gold in the purchase of telegraphic transfers from the Secretary of State ;

and it is intimated that Government do not contemplate in any circumstances undertaking an obligation to advance money to the Banks either at 8 per cent. or at any other rate of interest. In the event, however, of Government refusing to make a loan in the circumstances indicated, the Banks will have the alternative of borrowing in London the amount required.

My Directors consider the rate of 8 per cent. above quoted too high, and they would submit that a minimum of 6 per cent. or Bank rate, whichever is higher, is sufficient under the circumstances.

In this connection and with reference to paragraph I. of the memorandum which accompanied your letter No. 2265-A. of the 28th April last, in which it was proposed to give the Banks power to borrow in London when the Bank rate in India rises above a certain point (7 or 8 per cent.), I am to point out that in order that this power may be of real value it is essential that the Bank should be in a position to make the necessary arrangements for strengthening its position early in the season without waiting until the matter becomes urgent, when it will have to lay down funds at a maximum cost, and my Directors trust that Government will see fit to modify its proposals in this sense.

In conclusion, while fully believing that Government are desirous of accomplishing the object of the negotiations and discussions which have taken place during the past three years, viz., to give the Presidency Banks facilities for extending their operations, my Directors desire to say that in

their opinion the proposals now submitted by Government will not only fail to attain the object in view, but will in all probability necessitate a curtailment of the Bank's operations.

The proposed amendments to the Bank Act are desirable but not of supreme importance, and if these facilities can only be granted simultaneously with the imposition of restrictions which are onerous, and, my Directors submit, unnecessary, they would prefer to forego such facilities altogether, believing, as they do, that the Government proposals will not benefit either the Bank or the public.

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Enclosure No. 15.

No. 2874-A., dated the 6th May 1904.

From E. N. Baker, Esq., I.C.S., C.S.I., Secretary to the Government of India, Finance and Commerce Department, to the Secretary and Treasurer, Bank of Bengal / Bombay / Madras.

I am directed to refer to the correspondence ending with your letter dated the 29th February / No. 183, dated the 10th March / No. 322-4-G.P.L., dated the 30th March 1904, on the subject of the amendment of the Presidency Banks Act. You represented in that letter that the percentage of cash which, the Government of India proposed, should be maintained against liabilities was too high, and you suggested as an alternative that the minimum reserve of cash should be fixed at *33 per cent. of liabilities (excluding Savings Bank deposits) payable at call only / †30 per cent. of liabilities payable on demand only.

2. The Government of India are anxious to meet the wishes of the Banks as far as possible in this matter, and they are prepared to modify their former [*proposal to the extent indicated in your letter] proposal† to the following extent, which has been suggested by the Bank of Bengal, viz., that the minimum proportion of cash to liabilities shall be 33 per cent. of liabilities payable at call or within one month, but excluding Savings Bank deposits and fixed deposits not payable within one month of date of statement of liabilities. This is the lowest limit which the Government of India consider to be compatible with safety, and they hope that your Directors will now agree to it so that the Government of India may be in a position to forward all the proposals under consideration to the Secretary of State with the concurrence of the Banks.

3. You further suggest that the lowest Bank rate at which the Banks may be permitted to resort to the London market or to borrow in London should be fixed at 6 per cent. instead of 8 per cent. as proposed by the Government of India. On this point also the Government of India are willing to defer to the wishes of the Banks, and I am now to enquire whether your Directors definitely accept the proposal put forward in paragraph 5 of my letter No. 205-A., dated the 11th January 1904, modified to the extent of substituting 6 per cent. for 8 per cent. It is thought that the reduction now proposed will go a long way to meet the objection that the Banks should be allowed to borrow in London in anticipation of a period of stringency, instead of waiting until it has actually arisen.

4. I am to request the favour of a very early reply to this letter in order that the proposals may be laid before the Secretary of State without further delay.

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* To Bengal. † To Bombay and Madras.

Enclosure No. 16.

No. 189, dated the 14th May 1904.

From the Secretary and Treasurer, Bank of Bombay, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 2874-A., dated 6th instant, in which you inform me that the Government of India are anxious to meet the wishes of the Presidency Banks as far as possible in the matter of the minimum percentage of cash to be maintained against liabilities and that they are prepared to modify their former proposal to the following extent, viz., that the minimum proportion of cash to liabilities shall be 33 per cent. of liabilities payable at call or within one month, but excluding Savings Bank deposits, and Fixed deposits not payable within one month of the date of the statement of liabilities; and adding that this is the lowest limit which the Government of India consider to be compatible with safety and that they hope that my Directors will now agree to it so that the Government of India may be in a position to forward all the proposals under consideration to the Secretary of State with the concurrence of the Banks.

In reply I am instructed by my Directors to intimate that they are desirous of assisting Government in this matter and that they agree to the proposal now submitted.

Your letter further states that the Government of India are willing to defer to the Banks by permitting them to resort to the London market or to borrow in London when the Bank rate reaches 6 per cent. instead of 8 per cent. as proposed by the Government of India, and in reply to your enquiry I am desired by my Directors to say that they accept the proposal put forward in paragraph 5 of your letter No. 205-A., dated the 11th January last modified to the extent of substituting 6 per cent. for 8 per cent.

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Enclosure No. 17.

Dated the 14th May 1904.

From the Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge the receipt of your letter No. 2874-A., dated the 6th instant, relative to the amendment of the Presidency Banks Act.

The Directors are glad to learn that the Government of India have decided to modify the proposals contained in paras. 4 and 5 of their letter No. 205-A., dated the 11th January 1904, to the extent of (*a*) fixing the minimum proportion of cash to liabilities, which the Banks would be required to maintain, at 33 per cent. on liabilities payable at call only, but excluding Savings Bank deposits, and (*b*) substituting 6 per cent. for 8 per cent. as the lowest Bank rate at which the Bank may be permitted to resort to the London market or to borrow in London.

I am desired to inform you in reply that the Directors definitely accept the proposals put forward in paragraph 5 of your letter No. 205-A. of the 11th January last, modified to the extend indicated above.

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Enclosure No. 18.

No. 122-9 G. P. L., dated 24th May 1904.

From the Acting Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge the receipt of your letter No. 2874-A., dated 6th instant, on the subject of the amendment of the Presidency Banks Act, intimating that the Government of India are anxious to meet the wishes

of the Banks as far as possible, and that they are prepared to modify their former proposal in the matter of the percentage of cash against liabilities to the following extent, viz., that the minimum proportion of cash to liabilities shall be 33 per cent. of liabilities payable at call or within one month, but excluding Savings Bank deposits and Fixed deposits not payable within one month.

In reply I am desired by my Directors to say that they are prepared to accept the proposal as now modified.

As regards the question of borrowing in London, my Directors accept the proposal put forward in paragraph 5 of your letter No. 205-A., dated 11th January last, modified to the extent of substituting 6 per cent. for 8 per cent.

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No. 15, Financial, dated London, 3rd February 1905.

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA.

IN your letter of the 21st July, No. 264, you solicit my sanction to the introduction of legislation for the amendment of the Presidency Banks Act.

2. The most important of your proposals is for the admission of the Banks, under certain circumstances, to the London Money Market. By the existing law the Banks are prohibited from dealing in foreign exchanges except for the purpose of remitting from India the proceeds (whether principal, interest, or dividends) of securities or shares for, and at the risk of, their customers; and they are not allowed to borrow in England.

3. A request for the removal of these restrictions was made by the Banks in 1877, in the Memorial forwarded with the letter from Lord Lytton's Government, of 25th January 1878, No. 41, and was rejected in Mr. Gathorne Hardy's Despatch of 2nd May 1878, No. 135. Now that the proposal has been revived, I have carefully considered the matter with reference to the circumstances of recent years, and especially to the occasion which led to the correspondence which has been proceeding for the last five years on the position of the Presidency Banks.

4. The question of the sufficiency of the banking resources of India was raised by the Indian Currency Committee of 1898–99. The attention of the Committee having been directed to the stringency which prevailed in the Indian Money Market in 1897–98, they observed, in their Report (paragraph 22), that "it may be questioned whether banking arrangements in India might "not with advantage be strengthened and adjusted to the growing require-"ments of Indian trade." One member of the Committee recommended that, in order to assist in the maintenance of the exchange value of the rupee and for other purposes, it would be desirable to establish one strong Bank in India. The Government of India were favourably impressed by this suggestion, and proceeded to consider the possibility of absorbing the existing Presidency Banks into one strong establishment. The subject was fully discussed in this country and in India; but in their letter of 13th June 1901 the Government of India recommended that the proposal should not be persevered with at that time, and Lord George Hamilton accepted this recommendation.

5. In the course of the discussions on the proposal for the establishment of a central bank in India, the Presidency Banks took the opportunity of asking for further consideration of the proposal that had been rejected in 1878.

6. There has been considerable divergence of opinion among authorities in India in regard to the questions involved in this proposal. On the one hand, Mr. Dawkins expressed the view* that the fusion of the Presidency Banks, and an increase of their capital must be conditions precedent to the grant to the Banks of the concessions for which they asked. Sir Edward

* Proceedings of the Governor-General's Legislative Council, 5th January 1900, page 398 *supra*.

Law, in his Minute of 31st January 1901, did not share the opinion that a reorganisation of the Presidency Banks or an increase of their capital is required. He thought that any additional banking resources required in India could be readily found by the existing banking establishments outside the Presidency Banks. In opposition to the view that stringency is caused in India by the inadequacy of banking arrangements to trade requirements, he quoted a note by Mr. Lindsay of the Bank of Bengal, arguing that, if confidence in the stability of exchange is maintained, the existing facilities for the import of foreign capital will be ample to meet all legitimate demands on the short loan market in India. Mr. Lindsay urged that the exceptional stringency of 1897 was mainly due to uncertainty regarding the future exchange value of the rupee, and drew attention to the fact that, although the conditions regulating the demand for, and supply of, loanable capital were similar in 1900 to those in 1897, nevertheless money market conditions in India were much more favourable in the later year because (owing to the condition of exchange) the Exchange Banks were able to import capital to a sufficient amount to meet the requirements of the country, a condition which had not existed in 1897. The view held by Sir Edward Law and Mr. Lindsay in 1901, that it is not necessary to enlarge the powers and resources of the Presidency Banks in order to secure the introduction of fresh capital into India in times of active trade, is shared by the four Exchange Banks with whom I communicated in November last while considering your present proposals. A copy of the letters received from the Exchange Banks on the subject is herewith forwarded; I request that you will consider them carefully, and will let me know your views.

7. I am disposed to think that, owing to the large funds at their command and to the important part which they take in banking and remittance transactions connected with India, the Exchange Banks are in a position to supply the additional capital temporarily required in the busy season in India so long as the conditions of exchange are satisfactory. It is true that, if at any time difficulty should be experienced or anticipated in maintaining the exchange value of the rupee, the Exchange Banks would probably be less willing to send capital to India, and stringency might result; but in such circumstances the Presidency Banks would, presumably, be equally unwilling to borrow money in London for remittance to India with the risk of loss when remitting to London later for the purpose of repayment.

8. In these circumstances it would seem that no considerable advantage to Indian trade is likely to result from the adoption of your proposals; and that it is therefore undesirable to admit the Presidency Banks to a class of business from which they have hitherto been excluded, and in which (even if the maintenance of the special conditions that you suggest were found practicable) they would necessarily compete with the Exchange Banks. The Exchange Banks have for many years rendered useful service in connection with Indian trade; and, though they have no claim to be protected from the competition of other banks working under similar conditions, it would seem that they might have some legitimate cause for complaint (and, indeed, that their usefulness might be diminished) if they were now, for the first time, exposed in their remittance transactions to the competition of the Presidency Banks, which, as custodians of the Government balances, are in receipt of valuable aid from the State.

9. Your other proposals for removing existing restrictions on the business of the Banks are to allow them—

(*a*) to deal in securities issued by State-aided railways, such as branch lines constructed on rebate terms, and in securities issued by district boards;

(*b*) to make loans and advances on other than personal security for a period not exceeding six months;

(*c*) to grant overdrafts up to Rs. 10,000 (or any lower limit that may be prescribed by byelaw);

(*d*) to take over (subject to the sanction of the Governor-General in Council in each case) the capital, assets, and business of any other

bank in British India, provided that after the purchase the business shall be carried on in accordance with the provisions of the Presidency Banks Act;

(*e*) to advance money on the joint and several promissory note of two or more persons unconnected in business;

(*f*) to lend money (subject to the previous sanction of the Local Government, and for a period not exceeding six months) to the Court of Wards in respect of estates under management.

You also propose—

(*g*) to allow the Bank of Madras to lend, on Ceylon Government securities, resources raised in Ceylon;

(*h*) to remove the existing limitation (expressed in Section 14 of the Presidency Banks Act) on the capital of each bank.

You consider that it would be necessary, if all your proposals were approved, that the following changes should be made in the position of the Banks, viz.,—

(*i*) that power should be given by law to the Government of India to annul any particular election of auditors;

(*j*) that the Banks should undertake to keep a minimum balance equal to 33 per cent. of all their liabilities (other than Savings Bank balances) payable at call or within one month, and that they should further undertake (in the event of the balance of any Bank falling below that minimum) to make good the deficiency, within such time as the Government may direct, either by taking a loan from Government at 6 per cent., or at Bank rate, whichever may be higher, or by depositing gold with the Bank of England in London, and, if so required by the Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State.

10. I am willing that the alterations lettered (*a*) to (*h*) should be made in the existing law. In view of the postponement of a decision on the question of admitting the Presidency Banks to the privileges now enjoyed by the Exchange Banks, it is possible that they may now object to the condition lettered (*i*); and, if this should be the case, I do not think that the matter should be further pressed. It will be necessary to modify condition (*j*); for, in view of the postponement just mentioned, it would be useless for the present to mention the deposit of gold in London and the purchase of telegraphic transfers by the Presidency Banks, and the only practical resource that can be specified is for the Banks to borrow from the Government balances. I think that it would be inadvisable that an arrangement should be made between your Government and the Banks depending for its effectiveness on your willingness to place money at their disposal when their own cash resources fall below a certain limit. It would, in my opinion, be preferable that you should ascertain whether the Banks are willing to undertake to keep the minimum balance that you suggest, but that you should propose no stipulation regarding the method of making good any deficiency. If the Banks object to the condition, in this simple form, I am willing that it should be dropped.

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Enclosure No. 1.

F. 8216. Dated the 30th November 1904.

From L. Abrahams, Esq., Financial Secretary, India Office, to the Chairman, National Bank of India, Bishopsgate Street Within, E.C.; Chartered Bank of India, Australia, and China, Threadneedle Street, E.C; Hong Kong and Shanghai Banking Corporation, 31, Lombard Street, E.C.; Mercantile Bank of India, 40, Threadneedle Street, E.C.

(Private.)

I am directed by Mr. Brodrick to inform you that he is in correspondence with the Government of India regarding certain suggestions that have been made for the alteration of the Presidency Banks Act.

You are, no doubt, aware that several of the witnesses who appeared before the Indian Currency Committee of 1898–99 drew attention to the periods of stringency which had recently prevailed in Calcutta and Bombay, and that the Committee observed in its report that "it may be questioned "whether banking arrangements in India might not with advantage be "strengthened and adjusted to the growing requirements of Indian trade."

Some of the suggestions now under consideration relate to this question. It has been proposed (1) That the Presidency Banks should be allowed, when the Bank rate in India is 6 per cent. or higher, to borrow in London for the purpose of remitting funds to India; (2) that the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India, but that they should be required to make their remittances in such form as may be approved by the Government authorities in each case.

It has also been suggested that the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers, subject to a limit of 200*l.* in each case.

Before arriving at a decision on the proposals, Mr. Brodrick would be glad to be informed whether you have any observations to make on that portion of them which is summarised above.

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Enclosure No. 2.

Dated 8th December 1904.

From Sir T. Jackson, Chairman, Hong Kong and Shanghai Banking Corporation, to L. Abrahams, Esq., Financial Secretary, India Office.

I beg to acknowledge your letter of the 30th ultimo, advising me that correspondence has been opened with the Government of India regarding certain suggestions that have been made for the alteration of the Presidency Banks Act.

You call attention to the evidence given before the Indian Currency Committee of 1898–99, which, alluding to the money stringency recently experienced, says "it may be questioned whether banking arrangements in "India might not with advantage be strengthened and adjusted to the growing "requirements of Indian trade," and it is suggested that the Presidency Banks should be allowed, when the Bank rate in India is 6 per cent. or higher, to borrow in London for the purpose of remitting funds to India; and that the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India.

If the query expressed above was justified at that time, I have no hesitation in saying that India now enjoys all the banking facilities necessary for the carrying on of her great commerce on the most favourable conditions.

Up to the date of the Currency Committee's Report, the Indian money market was subject to periods of great stringency, and it frequently happened that the Presidency Banks were unable to render assistance on any terms, even by loans on Government securities, while 12 per cent. was quite a common rate at certain times of the year.

Since the date of the Report the official rate in Bombay has touched 9 per cent. once for a short time in 1900, and again for a couple of weeks in 1901, but in Calcutta the Bank rate never exceeded 8 per cent. The average for the four years was 5·18 per cent. in Bombay and 5·14 per cent. in Calcutta.

When the Currency Committee was sitting, 6 per cent. was looked upon as a normal rate in India. The improved conditions shown above have been brought about by the firm establishment of the Indian Government currency reform, and especially by the enlightened policy of the Indian Council in meeting freely the demand for remittances to India. So long as that policy is adhered to, there is no danger of any severe stringency in the Indian money market, and it is a policy profitable to the Government as

well as beneficial to India, as increased demand means a proportionately better price.

With that facility, and the option of getting rupees in exchange for gold shipments, the Exchange Banks have been able to finance the large foreign trade of India, without strain and on very favourable terms to the mercantile community. Consequently I maintain that the existing machinery is quite adequate, and that there is no occasion to make any change.

If the Presidency Banks find their resources are not sufficient to deal adequately with the internal trade of the country, the proper remedy would appear to be to increase their capital, rather than by borrowing from time to time in London. If the required capital could not be found in India, I see no objection to their placing shares in London and remitting the funds to India, as that would involve only one or two transactions. On the other hand, if the Presidency Banks were authorised to borrow on this side, the operations would be apt to have a disturbing effect on our money market, and might even clash with the issue of Indian Government loans and Treasury bills.

Money so borrowed would have to be remitted in gold or Council bills; as, in all probability, it would be through the latter channel, it would be depriving the Exchange Banks by so much of the means upon which they mainly rely for financing the export trade. When the loans came to be repaid, the Presidency Banks would be keen competitors for bills in India, with the inevitable result of depressing exchange, and so preventing the Indian Council from getting so favourable a rate for their bills as otherwise they would have reason to expect.

I therefore think it is clear that there are strong objections to the Presidency Banks borrowing money, temporarily, in London to supply the wants of India, and I think I have shown that there is now no occasion for such measures, and that, if adopted, they would be likely to do more harm than good.

It also seems to me that there would be no advantage to the public if the Presidency Banks were allowed to sell bills on London, even for small amounts, whilst it would be inflicting an injury on the Exchange Banks.

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Enclosure No. 3.

From Sir A. Wilson, Chairman Mercantile Bank of India, Limited, to L. Abrahams, Esq., Financial Secretary, India Office.

8th December 1904.

I have to acknowledge your letter of 30th November addressed to me by direction of Mr. Brodrick.

You mention in this letter that Mr. Brodrick is in correspondence with the Government of India regarding certain suggestions that have been made for the alteration of the Presidency Banks Act. Some of these suggestions deal with the possibility of strengthening the banking arrangements of India by affording increased facilities to the Presidency Banks for conducting exchange operations between India and England. These facilities, I understand, would include the power to contract loans in London for the purpose of remittance to India whenever the bank rate in India was 6 per cent. or higher, and permission to deal in foreign bills of exchange so far as may be necessary to remit such borrowed money to and from India. There is also the suggestion that the Presidency Banks should have somewhat more extended powers in connection with the privilege they already possess of providing drafts on London for constituents' family remittances.

The supposed necessity for such alteration and extension in the power and authority of the Presidency Banks appears to be advocated on public grounds founded, so far as I can see, solely on some evidence tendered before the Indian Currency Committee of 1898–99, in which attention was drawn to periods of stringency which had recently prevailed in Calcutta

and Bombay. This evidence pointed, in the view of that Committee, to a "possible necessity of adjusting banking arrangements to the growing requirements of Indian trade." I have not before me the report of this Committee, but I am perfectly certain that there is nothing in it pointing to a condition of things which could have been in the slightest degree remedied or mitigated by the extension of powers of the Presidency Banks mentioned above.

To explain what I mean it is necessary to go back to the period of the closing of the mints in 1893. In that year the mints were closed to the public and the free coinage of silver stopped. In substitution thereof the Government notified that the Indian mints were authorised to receive gold and sovereigns in exchange for rupees on the basis of 1*s.* 4*d.* per rupee, and it retained for the future in its own hands the power to coin and issue on that basis whatever additional silver currency might from time to time be required.

But these currency measures were by no means an immediate success. Throughout the years 1893, 1894, 1895, 1896, 1897, 1898 not a single sovereign was tendered to the Government to be exchanged for 15 rupees, and for the greater portion of that period exchange ruled far below the point at which such an operation became possible, viz., 1*s.* 4*d.* Gradually, however, the total cessation of fresh coinage began to tell, and towards the end of 1896 the severe famine of that period helped the upward movement of exchange by creating an abnormal demand for money in India.

It was under these circumstances that, in 1897 and 1898, the period of severe monetary pressure referred to in your letter occurred. In 1899 confidence in the success of the new currency measures began to increase, and since that year stability of exchange on a gold basis has been maintained. The provisions established by the Currency Act of 1899 making the sovereign a legal tender, and providing for all necessary extension of silver currency, have been in constant operation and are working smoothly and satisfactorily, and a condition of things now exists which makes any repetition of the severe monetary pressure of 1897–98 very unlikely and in fact impossible in the future.

In support of this I here give you the average rate of discount of the principal State Bank of India, the Bank of Bengal, for the period under review. It is as follows:—

| | | |
|---|---|---|
| 1896 | average rate | 5·674 |
| *1897 | ,, | 7·912 |
| *1898 | ,, | 8·049 |
| 1899 | ,, | 5·910 |
| 1900 | ,, | 5·334 |
| 1901 | ,, | 5·477 |
| 1902 | ,, | 4·855 |
| 1903 | ,, | 4·866 |
| 1904 | ,, | 4·782 |

These figures show clearly the contrast between the monetary conditions during the period of pressure in 1897 and 1898 referred to, and those which have ruled subsequent to the passing of the Currency Act of 1899.

These facts are, no doubt, well known to Mr. Brodrick and yourself, but I recapitulate them because it is necessary to show the complete fallacy of the suggestion which has been evidently conveyed to you that the abnormal pressure of 1897 and 1898 arose from causes which would have been prevented or cured or mitigated in the slightest degree by giving power to the Presidency Banks to borrow money in London and engage in exchange operations connected with the handling of such loans. It was not the absence of banks or banking capital for dealing with the foreign exchange business of India which led up to the stringency of 1897–98. It was the abnormal demand for money in India itself consequent on famine requirements occurring at a time when two of the chief extraneous methods of relieving that stringency were stopped, viz., the importation and coinage of silver into rupees, which has been stopped as already explained, and the Secretary of State's weekly drawings of Council Bills. During 1897–98

the latter were much curtailed and even temporarily suspended in consequence of the heavy famine expenditure of that period.

The Presidency Banks, like other banking institutions, could certainly at that time, had their powers permitted, have raised sterling loans in London, but that would not have relieved the stringency in India or helped the position there in the slightest degree, because it would not have increased by one rupee the then existing facilities for converting and transmitting the proceeds of such loans into Indian currency. The remedy lay in the successful completion of the currency policy initiated in 1893, and which has been in smooth practical working since 1899. Under these conditions the position of 1897–98 can never recur.

The question of granting to the Presidency Banks power to borrow money in London for transmission to and employment in India, and of engaging in operations of exchange in connection with the transmission and employment of such money, is not brought forward for the first time. On several occasions these powers have been applied for, and on each occasion the application has been refused as incompatible with the principles and conditions under which State-aided Banks should exist. I have shown clearly, I think, that no public advantage would be gained and no public interest served by granting them. It would be an anomaly in State banking to find the Presidency Banks of India, which depend for their prestige and resources so largely on their State connection, turning their attention and their resources from the object of their existence—the facilitating the internal trade and requirements of India (a sufficiently wide field one would imagine), to embark in operations of foreign exchange. It would, further, be a serious matter for the existing Exchange Banks, and very unfair to them if these State Banks, backed by their State support and the large amounts of public funds placed at their disposal by the State free of interest, should be authorised to compete keenly, and with all the power that their privileged position gives them, with those institutions which have hitherto conducted that business to the satisfaction of the mercantile community.

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Enclosure No. 4.

From R. Campbell, Esq., Chairman National Bank of India, to the Secretary of State for India.

8th December 1904.

I have the honour to acknowledge receipt of Mr. Abrahams' letter of the 30th ultimo, and to thank you for communicating to me the suggestions which have been made for enlarging the powers of the Presidency Banks so as to permit them to deal in sterling exchange.

The proposal that these banks should be allowed to engage in sterling exchange business is not a new one. It has been put forward time after time during the last 50 years, and with a small exception, allowing them within certain restrictions (which we maintain should be adhered to) to make customers' remittances to England, it has been steadily vetoed by the Government of India.

There appears to be no reason at the present time why this well-considered veto should be withdrawn. On the contrary, existing conditions appear to make the present a peculiarly inopportune time for again putting forward the suggestion. The strongest plea in its favour, a plea which is alluded to in your letter, has always been that with the London market thrown open to them for raising money, and with liberty to operate in sterling exchange, the Presidency Banks would be enabled to prevent or alleviate the periods of monetary stringency which formerly affected Indian trade during certain months of almost every year.

Happily the successful working of the Indian Currency Act of 1899 has removed this grievance. By establishing a gold standard with the resulting stability of sterling exchange it has facilitated the free interchange of gold between England and India, enabling the exchange Banks to keep Indian

trade promptly supplied with all the currency required, and thus preventing the periodical stringency which had formerly to be reckoned with.

In proof of this it is only necessary to point to the rates of interest ruling in India for the four years previous to, and the four years since the passing of the Act, of which a diagram is appended. These figures show not only a remarkable contrast in the interest rates during the busy season of these two periods, but an increasing tendency towards a steadier and easier money market due to the continued influence of that measure. For the last four or five years there has been no real monetary stringency in India, any trade demand for additional currency during the busy season having been promptly met by imports of sovereigns. The Exchange Banks with their large sterling resources in the shape of capital and deposits, amounting to probably not less than twenty millions sterling, have shown themselves ready and able to meet and even anticipate all India's requirements with the result that, for some years past, Indian trade has been conducted with ease and comfort, and without the drawbacks incident to monetary stringency and oppressive interest charges.

Deprived, as it now is, of the only reason which could be urged in its favour, it is difficult to see why this proposal should again be brought forward. If, before the Currency Act came into operation, no sufficient reason could be urged to outweigh the objections to the Presidency Banks operating in sterling exchange, why should permission be accorded now, when the only strong argument in its favour has ceased to exist? It cannot be alleged that the Exchange Banks, whose business it has been for the past 50 years to finance the external trade of India, are incompetent to do so, and no complaint is heard of inefficiency or oppressive charges. We can only conclude therefore that, with less reason than ever, this is only another renewal of the attempt to get for the Presidency Banks the permission they have so long desired to operate in sterling exchange. The Exchange Banks have felt it their duty to oppose this demand on every occasion, their latest protest being addressed to the Government of India so recently as January 1900.

We maintain that the legitimate function of the Presidency Banks is to finance the internal trade of the country, for which they enjoy special privileges in the shape of large amounts of public money without any interest charge. We see no reason to believe that the resources at their command are insufficient for the purpose, and we respectfully, but earnestly, protest against their being permitted to go outside of their legitimate sphere, and engage in sterling exchange operations on the plea of gaining access to the London Money Market. The Exchange Banks do not deprecate ordinary competition by competitors on the same level as themselves. What we do strongly object to, and protest against, is State-aided competition, competition on the part of the Presidency Banks enjoying the prestige of the Government bankers, and with immense sums of public money at their disposal free of charge, while we are handicapped by having to pay interest on the whole of our deposits. We repeat that the Presidency Banks should confine themselves to their legitimate business, leaving the negotiation of sterling bills to the Exchange Banks, whose business it is, and who, by reason of their organisation and their London establishments, are best able to appreciate the risks attaching thereto.

We do not gather from your letter whether any and what limit is to be placed on the extent to which the proposed operations may be carried, or to the frequency with which they may be repeated. So far as we know, they might not only be of great magnitude but of constant repetition. By bringing in money from London, covering by sterling bills as soon as possible, repeating the operation and again covering, and so on, the Banks might for anything we know be constant huge operators in sterling exchange so long as the rate of interest, which they themselves fix, is at or over 6 per cent. We can hardly suppose that such a course would be within the spirit of the desired permission, but we mention it to show how easily the liberty might be abused and how the introduction of the thin end of the wedge would surely lead to further encroachments.

Should the Government by allowing the Presidency Banks to go outside their proper sphere and operate in sterling exchange now depart from the principle to which, as I shall presently show, they have hitherto adhered, that the Government business should not be entrusted to a bank which deals in foreign exchange; if this principle is now to be abandoned and if exchange banking is no longer to be regarded as a disqualification for Government business, it seems not an unreasonable suggestion that in that case the Exchange Banks should be allowed to compete for a share of the Government business, and the Government balances on such terms as the Government might consider satisfactory.

The attitude of the Government of India on this question has always been perfectly consistent. On one of the occasions when it was raised, more than 40 years ago, the then Secretary of State, Sir Charles Wood (afterwards Lord Halifax), expressed himself very strongly in regard to it. In a Despatch to the Government of India of 16th September 1862, he said :—

> "The question of giving a power to deal in foreign exchanges to the Bank of Bengal, which is now proposed, was formerly and on different occasions considered, and that power was always withheld." . . . . "Any Bank to which the balances and Treasury business of the Government are to be entrusted must be restricted to legitimate banking operations such as those transacted by the Bank of England or by the Bank of Bengal as heretofore constituted."

And in their reply the Government of India remarked :—

> "We entirely concur with your opinion as to the concession to the three Banks of any general power to deal in foreign exchanges."

Again on the 10th June 1863 Sir Charles Wood wrote :—

> "I cannot, however, give up the condition on which alone any bank can be entrusted with the Government business and that is that it should be debarred from dealing at all in foreign exchanges."

And on 4th January 1864, on the arrangements between the Government and the Bank of Bengal :—

> "V. The Bank to give up dealing in foreign exchanges."

We cannot burden this letter with further quotations from these Despatches, but their full text will be found in a Parliamentary Paper, No. 109, published on 7th March 1864.

These extracts clearly show the decided attitude of the Government of India on this question up to the present time, and now that less reason than ever, in fact no valid reason at all, can be urged in favour of the proposed new departure, we trust that the Government will continue to adhere to their well-considered policy. Any concession of principle now would be sure to lead to larger demands for wider scope later on.

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Enclosure No. 5.

From J. H. Gwyther, Esq., Chairman Chartered Bank of India, Australia and China, to L. Abrahams, Esq., Financial Secretary, India Office.

9th December 1904.

I have to acknowledge receipt of your personal letter of 30th November regarding certain suggestions that have been made for an alteration in the Presidency Banks Act.

The Exchange Banks, in common with the Government of India and the Presidency Banks, have every desire to foster the commercial and agricultural interests of India, and therefore the following remarks must be considered subordinate thereto.

The Exchange Banks have practically financed the whole export and import trade of India for many years, and would naturally view with apprehension any legislation which would have the effect of placing the Presidency Banks in a position to compete with them for exchange business, which may reasonably be regarded as the particular province of the Eastern Exchange Banks.

Since the new currency laws, these Banks have been more disposed to send money to India for local purposes, and the recent policy of the India Council in regulating the sale of their bills according to the requirements of trade has very much lessened the probability of extreme rates of interest for money, for more than short periods.

I assume that the proposal to increase the lending powers of the Presidency Banks, by authorising them to borrow in England, has reference to the alleged necessity for additional resources to finance the internal trade of India, as the Exchange Banks, I believe, are fully sufficient to handle the external trade of the country. The discussion is therefore narrowed down to the question of what is the best method of creating the funds said to be required by the Presidency Banks. If the deficiency is actual and frequent, there are three ways of supplying the deficiency :—

1st. Additional capital.

2nd. An increase in local deposits, to be attracted by offering favourable rates of interest.

3rd. An increase by the Government of India of their deposits with the Presidency Banks to a reasonable extent, and beyond a fixed maximum with approved security.

As regards the proposal to borrow in this country, I of course assume that the Presidency Banks would not be allowed to remit to London their holdings of Government Securities, as such a divorcement between liabilities and assets would be most unbusinesslike and fraught with danger in times of financial difficulty. It follows, therefore, that the only method of raising funds in this country would be by advertising for sterling fixed deposits, as is the practice of the Exchange Banks, who allow, at the present time, interest at the rate of 4 per cent. per annum for money placed with them for 12 months fixed. With shipping charges to and from India, this would mean a cost of over 5 per cent. per annum.

Even assuming that the Presidency Banks could borrow for six months at 3½ per cent. per annum, this would be equal to a cost of 5½ per cent. per annum taking shipping charges into account.

In considering the question of possible profit, it must be borne in mind that the action of the Banks, in attracting this money to India for the busy export season, would naturally militate against their being able to secure a profitable return on the money invested.

With reference to the method of remitting to India the funds raised in this country, I am of opinion that the Presidency Banks should be restricted to purchases of Council Bills, and returns should be confined to shipments of sovereigns, thereby preventing the Presidency Banks from entering into competition with the Exchange Banks in India.

With reference to the further question of allowing the Presidency Banks to sell drafts on London for the requirements of their customers, I feel that the concession, although, as at present restricted, it is of no great importance, would be liable to gradual enlargement, and so would create in the minds of the Exchange Banks suspicion and friction.

P.S.—You may perhaps be interested in perusing the references which I have made from time to time, in my speeches as Chairman of this Bank, to the subjects referred to above, and I enclose four of these herewith, together with copy of a memorial addressed to Lord Curzon by the Exchange Banks of Calcutta, dated 27th January 1900.

No. 31.

Telegram from the VICEROY to the SECRETARY OF STATE FOR INDIA, dated 3rd March 1905.

Your Financial Despatch No. 15, 3rd February last. Presidency Banks. Can we communicate to Presidency Banks the Exchange Banks' letters enclosed.

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No. 32.

Telegram from the SECRETARY OF STATE FOR INDIA to the VICEROY, Finance Department, dated 17th March 1905.

Your telegram of the 3rd March. Presidency Banks. No objection, on the understanding that if correspondence on the subject continues, the Exchange Banks should be allowed to see any further letters from Presidency Banks relative to borrowing in England and Exchange transactions.

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No. 351, dated Simla, the 19th October 1905.

From the GOVERNMENT OF INDIA, Finance Department, to the SECRETARY OF STATE FOR INDIA.

WE have the honour again to address you regarding our proposals for the relaxation of existing restrictions on the business of the Presidency Banks.

2. In your Despatch No. 13, dated 3rd February 1905, you sanctioned our less important recommendations on this subject but took exception to our main proposal to confer upon the banks a limited power of borrowing in sterling and to the conditions regarding audit and the maintenance of a minimum balance which it was proposed to attach to that concession. You also forwarded representations from the Exchange Banks whom you had thought it desirable to consult. Availing ourselves of the permission accorded in your telegram of the 17th March, we communicated these letters and the decisions announced in your despatch to the Directors of the Presidency Banks, and we now forward the correspondence for your information. We consider that it contains an effective reply to the claims put forward by the Exchange Banks, and if the question at issue were merely that of adjusting the conflicting demands of competing private institutions we should be content to rest the case of the Presidency Banks upon their own statement of it. But the question of access to London is so intimately connected with our own policy and engagements in matters of commercial finance and affects such wide monetary interests that we feel it incumbent on us to submit an independent justification of our proposals.

3. One of the main objects of currency reform was the attraction of British capital to India; and we have always recognised that if this advantage was to be fully secured the establishment of a gold standard must be followed by supplementary action. We believe that the creation of a special Department of Commerce and Industry, and the attitude towards commercial questions of which that measure is typical, will ultimately do much to attract the capital required for permanent investment in industrial undertakings. But the machinery of the banking system still remains ill-adapted to the fluctuating needs of the Indian money markets, in which the supply of cheap money is of the most vital importance. The embarrassments arising from an inadequate supply of loanable capital form the burden of the whole of the commercial evidence recorded by the Currency Committee of 1898; and it was this want which Lord George Hamilton undertook to meet when looking forward to a development of banking facilities which would "give to India the fullest benefit, both monetary and commercial, of "her direct connection with the cheapest, the largest and the most fructi-"fying money market in the world."* This requirement was pressed upon us

* Speech in House of Commons on 8th August 1899.

by the Bengal Chamber of Commerce in almost identical terms, and the same attitude was adopted by the Chambers at Bombay and Madras. We have as yet done nothing to meet their unanimous demand beyond initiating a debate which has now extended over five years. In this interval we have tested public opinion and gained experience of the new conditions which was necessarily wanting at the outset. The result has been to reduce our proposed reforms to a minimum which in 1900 would have been considered inadequate. If our matured and moderate proposals are now rejected, our work will remain manifestly incomplete and legitimate expectations will be disappointed.

4. Regarding the removal of all needless and artificial restrictions which impede the natural flow of capital as an evident and accepted obligation, we cannot rest satisfied with an improvement in money market conditions which is mainly noteworthy by comparison with the abnormal situation produced by the closing of the mints. It was obvious that the difficulties of the transitional period would be appreciably relieved, without further intervention on our part, from the moment fixity of exchange was established. But it is also clear that the full amount of relief cannot be obtained if the privilege of importing British capital is to be limited to the representatives of a particular section of the trading community, as the Exchange Banks claim to be. Indeed, so far as this point is concerned, it makes little difference whether the foreign banks confine themselves strictly to their special field, or engage also in general business. The exclusion of the leading local banks must in either case tend to raise the price of money above its natural level.

5. This presumption finds support in the maximum bank rates of 7 and 8 per cent. which recur in every busy season. The difference between these rates and those obtaining in London is more than can be explained by the cost of remittance between England and India. The normal range of fluctuation (5 per cent.) is also excessive, the more so as the Indian markets are not exposed to foreign demands. The average bank rate since 1899 is not lower than rates which have frequently ruled in earlier years. In other great trading countries the average rate has rapidly fallen. The possibility of further improvement is also suggested by the remarkably small re-export of gold which, convenient as it may have been to us in the tentative stages of our currency policy, points nevertheless to a reluctance on the part of existing agencies for the import of capital to bring it out for the short periods when it is most required. It is this deficiency which the Presidency Banks are prepared to supply: not indeed with any expectation of materially increasing their dividends, but in virtue of their acknowledged responsibility as banks of last resort,

6. Even if no further reduction in bank rates were to be expected, we should still hesitate to base our permanent arrangements on the experience of a few specially fortunate years. The Bank of Bombay has pointed out that recent additions to the supply of money are probably connected with the great excess of exports over imports, the large payments due to India being intercepted in the trading centres. Between 1898 and 1903, the private deposits of the Presidency and other Indian banks, together with the Indian deposits of the Exchange Banks, increased from Rs. 27 crores to Rs. 44½ crores, that is, by 64 per cent. In the previous quinquennium the increase was less than Rs. 3 crores. We cannot confidently rely on the maintenance of this rapid growth of loanable capital. Nor can we assume that the Indian markets will never again have to pass through those times of stringency and crisis which are of periodical recurrence elsewhere.

7. For the reasons set forth in the foregoing paragraphs we hold that the grant of sterling borrowing powers to the Presidency Banks is essential to the further reduction and equalization of market rates; that recent conditions, while in some respects abnormally favourable, are susceptible of improvement; and that in any case provision should be made for exceptional emergencies. This last point is closely connected with the aspect of the question to which we now pass on—the effect of the refusal of access to London on the status of the Presidency Banks.

8. For a century past the Government of India have actively assisted in building up a strong and centralized banking system. In pursuance of

this policy—of which many other illustrations could be given—they have acknowledged from first to last the predominant position of the Presidency Banks as the banks of ultimate resort in this country: up to 1862 by the exclusive recognition accorded to their note issues, these being on a fiduciary basis; from that year till 1876 by placing with them practically the whole of the unemployed Government balances. After the establishment of the Reserve Treasuries (in 1876 and 1879) the Presidency Banks were still alone able to obtain loans from the Government; and, though the unrestricted grant of such loans became impossible after 1893, it was settled that in the event of their being granted on occasions of severe stringency, Government funds could only be placed at the disposal of the public through the medium of the Presidency Banks.

In the changed conditions introduced by the present currency system—at any rate for so long as we retain its machinery in our own hands—the system of loans and advances naturally disappears under ordinary circumstances. Our surplus rupee balances must necessarily be held in reserve to meet the possible demands of importers of gold. The consequence is that while rival institutions by borrowing or transferring capital from London can command the Government's whole resources, the Presidency Banks alone, who formerly had the first claim, are now deprived of the means of providing for the exceptional demands which it is their special function to meet.

9. The older method by which the commercial community were taught to look to the Government for an appreciable part of the additional funds required in the busy season, and to call for State intervention on occasions of emergency, was inadequate and in some respects dangerous, and we shall be glad to replace it by an automatic system of dependence upon the sterling markets. But if we close the source of supply upon which the Presidency Banks formerly relied and continue to exclude them from the other, their position cannot but be seriously affected; and especially so, if the Exchange Banks should at any time make a systematic use of the advantages which they will then possess. We should view with grave apprehension any decision which thus tended to substitute in banking matters an irresponsible for a responsible agency. The Exchange Banks are not exclusively attached to India; they receive no special privileges from the Indian Government; and we cannot expect them to acknowledge any obligations either to ourselves or to the Indian public. In this connection we may refer to the evidence given before the Currency Committee of 1898* regarding the transfer of their capital to England during the currency difficulties of 1893–99; and to our despatch No. 56, dated 22nd February 1900, which describes their action in 1899 when a serious commercial crisis was threatened in Bombay. The incident here referred to is specially relevant as an example of the possible results of hampering the responsible local banks and relying upon the Exchange Banks to fill their place. This exclusive regard for their private interests is equally noticeable in their memorial on the Central Bank question in 1900 and in the present correspondence. We consider such an attitude to be perfectly legitimate, though it appears to us to assume an extravagant form in the objections to the reasonable proposal that the Presidency Banks should be allowed to remit small sums on behalf of their customers and in the argument that the occasional borrowings of the Presidency Banks might disturb the London market. But it justifies our reluctance to rely upon the Exchange Banks, under all circumstances, to discharge the functions which naturally belong to a Central Bank.

10. On these broad grounds we resubmit our proposal to admit the Presidency Banks under suitable restrictions to the London market. We hold strongly that the question is one to be decided solely on considerations of the public interest. But in deference to your wishes we have again examined it with special reference to the representations now before us, and are satisfied that additional limitations would reduce it to a nullity; that it involves no unfair or indeed appreciable competition; and that in whatever serious competition already exists it is the Exchange Banks who are the aggressors.

11. On the first of these three points we have merely to note that if the Presidency Banks are given a free hand (subject to the Comptroller General's

* C. 9037, Questions 1811-5, 1958-62.

control) in the management of their remittances, it is probable that they will ordinarily make use of the agency of the Exchange Banks themselves. But if we confine them to that agency or to remittance by shipment of gold we retain in a modified form the very restriction which it is our object to remove. The margin of profit on the Banks' sterling operations must in any case be narrow, and we ought not in the absence of proved necessity to create opportunities for combination which might further reduce it.

12. As regards the question of competition it is obvious that under the conditions which we propose the borrowing operations of the Presidency Banks will be so intermittent as to make it impossible for them to obtain a permanent hold upon the clientèle of the Exchange Banks, while the powers of control which are to be entrusted to the Comptroller General will effectually prohibit those purely speculative transactions which have been fancifully suggested as the ulterior object which the Presidency Banks have in view. There will of course be slightly increased competition for bills in both directions, but not more than if the Exchange Banks had brought out the additional funds themselves. In making this a grievance the latter practically abandon their position that they are themselves prepared to keep the market fully supplied.

13. On the other hand we have to recognise the fact that the Presidency Banks are already exposed to competition in what is supposed to be their exclusive sphere of influence. As the Bank of Bombay points out, "all the "Exchange Banks consulted compete more or less keenly in the internal "trade and this competition has been steadily growing and extending." This statement is confirmed by the letters of the Banks of Bengal and Madras, and by the expressed readiness of one of the Exchange Banks to send out funds "for local purposes." It is within our own knowledge that one of them has been able to open branches in the Mofassal at places where the Presidency Banks are unable to work at a profit under the statutory restrictions imposed upon them; and we believe that this tendency to encroachment is in accordance with experience elsewhere. These considerations give point to the apprehensions expressed in an earlier paragraph, and should at any rate be regarded as estopping the Exchange Banks from pleading for artificial methods of protection.

14. If you are satisfied, as we trust you may be, that the opposition to our main proposal cannot be sustained, it will remain to consider whether that proposal should be accompanied by the provisions relating to the maintenance of a minimum balance which we originally submitted to you. We are aware of the objections to rigid limitations of this kind, and in particular we realise the difficulty, to which you have called attention, of devising a practicable penalty for default; and as we are not prepared to assert that the suggested precaution is essential, we are willing to waive it if you consider it inexpedient. The true safeguards on the exercise by the Banks of larger powers are stability of exchange and the imposition of such restrictions as will limit their sterling transactions to the operations directly connected with borrowing and the remittance of the borrowed funds. Fixity of exchange is now securely established, and it will hardly be seriously contended that the arguments by which the concession was opposed in earlier days are relevant to the present discussion. The only other objection which can claim attention is the possible risk of the Banks' resources being locked up in London when required in India. It would be necessary of course to allow them to hold securities in London, and such securities would be more readily convertible than if held in India. But they would not be permitted to receive deposits or engage in general banking business, or to borrow for an indefinite term. We did not propose any definite period for the repayment of loans raised in England in our previous despatch; but we would now suggest that such repayment should take place within six months. Under these conditions, which are ignored in the correspondence forwarded with your Despatch, the Banks will be exposed to no unanticipated demands in London and will be in a stronger position in the event of pressure in India.

15. We have to add that until the receipt of your further orders we propose to defer action on the minor concessions which you have sanctioned; and also that we have ascertained from the Directors of the Banks that they

will not object to the communication of their recent letters to the Exchange Banks whom you previously consulted, if you should think further consultation necessary.

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Enclosure No. 1.

No. 2035–A., dated the 18th April 1905.

From W. S. MEYER, Esq., SECRETARY to GOVERNMENT of INDIA, Finance Department, to (1) the SECRETARY and TREASURER, Bank of BENGAL; (2) the SECRETARY and TREASURER, Bank of BOMBAY; (3) the SECRETARY and TREASURER, Bank of MADRAS.

With reference to the correspondence ending with your letters* on the subject of the amendment of the Presidency Banks Act, I am directed to say that representatives of certain of the Exchange Banks were consulted by the India Office in November last with regard to the following proposals:—

(1) That the Presidency Banks should be allowed, when the bank rate in India is 6 per cent. or higher, to borrow in London for the purpose of remitting funds to India;

(2) That the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India, but that they should be required to make their remittances in such form as may be approved by the Government authorities in each case; and

(3) That the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers, subject to a limit of 200*l.* in each case.

2. I am to enclose a copy of the criticisms passed by the Exchange Banks on these proposals, and to enquire whether the Directors of the Bank of wish to make any further observations on the subject.

3. I am further to say that it has been ascertained that His Majesty's Secretary of State for India is prepared to assent to legislation conferring the following powers on the Presidency Banks, namely:—

(*a*) To deal in securities issued by State-aided railways such as branch lines constructed on rebate terms, and in securities issued by district boards.

(*b*) To make loans and advances on other than personal security for a period not exceeding six months.

(*c*) To grant overdrafts up to Rs. 10,000 (or any lower limit that may be prescribed by byelaw).

(*d*) To take over (subject to the sanction of the Governor General in Council in each case) the capital, assets, and business of any other bank in British India, provided that after the purchase the business shall be carried on in accordance with the provisions of the Presidency Banks Act.

(*e*) To advance money on the joint, and several promissory note of two or more persons unconnected in business.

(*f*) To lend money (subject to the previous sanction of the Local Government, and for a period not exceeding six months) to the Court of Wards in respect of estates under management.

4. The Secretary of State is also willing to agree to the removal of the existing limitation (expressed in the proviso to Section 14 of the Presidency Banks Act) on the capital of each bank [†and to allow the Bank of Madras to lend on Ceylon Government securities, resources raised in Ceylon].

5. The Government of India suggested that, in the event of all the above proposals being adopted, the following changes should be made in the position of the Banks, viz.:—

(*g*) That power should be given by law to the Government to annul any particular election of auditors.

(*h*) That the Banks should undertake to keep a minimum balance equal to 33 per cent. of all their liabilities (other than Savings Bank

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* (1) Dated 14th May 1904; (2) No. 189, dated 14th May 1904; (3) No. G.P.L. 122–7 dated 24th May 1904 (*see* pp. 488–9).

† To (3) only.

balances) payable at call or within one month, and that they should further undertake (in the event of the balance of any Bank falling below that minimum) to make good the deficiency, within such time as the Government may direct, either by taking a loan from Government at 6 per cent., or at Bank rate, whichever may be higher, or by depositing gold with the Bank of England in London, and, if so required by the Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State.

6. These changes had been agreed to by the Banks on condition that all the above concessions are granted, but the Directors may be unwilling to acquiesce in them if the proposed concessions are curtailed, and it is evident that, if the Banks are not allowed to borrow in London, proposal (*h*) will require modification. I am therefore to enquire, whether in the event of the proposals numbered (1) to (3) in the first paragraph of this letter being finally rejected and those enumerated in paragraphs 3 and 4 being adopted, the Directors of the Bank of (i) will still be willing to accept the proposed amendment in the law regarding the election of auditors, and (ii) will be prepared in place of proposal (*h*) to give an undertaking to keep the minimum balance specified in that proposal. If the Directors will give such an undertaking, the Government of India will not press for a stipulation regarding the precise method of making good any deficiency.

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## Enclosure No. 2.

From W. D. CRUICKSHANK, Esq., Secretary and Treasurer, Bank of Bengal, to the SECRETARY to the GOVERNMENT of INDIA, Finance Department, Simla.

18th May 1905.

I have the honour to acknowledge receipt of your letter No. 2035-A. of the 18th ultimo, with enclosures, relating to the proposed amendment of the Presidency Banks Act.

You say that representatives of certain of the Exchange Banks were consulted by the India Office in November last with regard to the three proposals which are reproduced in the margin [*see* footnote], and in forwarding a copy of their criticisms you enquire whether the Directors of the Bank of Bengal wish to make any further observations on the subject. You also enquire whether, if three proposals* were finally rejected, the Directors would still accept the proposed amendment allowing Government to annul elections of Auditors and would undertake to keep a minimum cash balance equal to 33 per cent. of all liabilities of the Bank (other than Savings Bank balances) payable at call or within one month.

In previous correspondence ending with your letter No. 2874-A. of 6th May 1904 and my reply thereto, the Government of India were most careful to explain their reasons for assenting to a resort to the London market. They accepted the contention that the Presidency Banks should be allowed a last resort in periods of stringency, but they determined that the exercise of the powers should be safeguarded by the conditions calculated to meet all possible objections. Access to the London market was therefore to be permitted only at times when there was a *real deficiency* of loanable capital in India. The Presidency Banks were to understand that it was not intended to encourage resort to that market as a speculative measure in anticipation of such a deficiency, consequently their borrowing in London could only take place when the Bank rates rose above a fixed limit, and when

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* (1) That the Presidency Banks should be allowed, when the bank rate in India is 6 per cent. or higher, to borrow in London for the purpose of remitting funds to India ;

(2) That the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India, but that they should be required to make these remittances in such form as may be approved by the Government authorities in each case ; and

(3) That the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers subject to a limit of 200*l.* in each case.

loans from the Reserve Treasury were not available. The Government would also claim to control the mode of repayment of any sterling loan.

This explanation of the intention of Government must have been considered by the Exchange Banks, but their criticisms do not attempt to deal with the injustice or undesirability of withholding from any Banking Institution the right to a last resort for the purpose of obtaining funds necessary for its business in times of stringency. The objections urged are apparently based mainly on two grounds—*first*, that periods of stringency are not now likely to arise having regard to the successful working of the new Currency laws and the resulting stability of sterling exchange; and, *secondly*, that remittances to London, whether in repayment of amounts borrowed or to the limited extent required for the Bank's private customers, would interfere with the operations of the Exchange Banks.

Each of these objections is open to an obvious answer: first, if periods of stringency for which alone it is sought to provide will not occur, the necessity for resort to the London market will not arise, and the apprehension entertained must prove groundless; second, if the repayment of permitted sterling loans is to be controlled by Government, it will always be possible to arrange for the legitimate and natural business of the Exchange Banks not being interfered with. It appears to be conceded that remittances on behalf of customers to the limited extent proposed is not open to serious objection, but it is suggested that hereafter the limits may be exceeded and suspicion and friction engendered.

The Exchange Banks lay great stress on their ability to keep India amply supplied with funds, and are at some pains to define what they term the legitimate functions of themselves and the Presidency Banks respectively—those of the former being, they say, to finance the import and export trade, and of the latter to finance the internal trade of the country. The National Bank, which has already opened a number of branches in the interior, submits that the Exchange Banks with their large sterling resources have shown themselves ready and able to meet and even anticipate all India's requirements, while the Chartered Bank says: "Since the new currency laws "these (Exchange) Banks have been more disposed to send money to India "for local purposes, and the recent policy of the Indian Council in regulating "the sale of their bills according to the requirements of trade has very "much lessened the probability of extreme rates of interest for more than "short periods." These Banks do not propose to confine their business within the limits they for the present define as legitimate, but they apparently consider that they should be free to finance internal as well external trade, while the operations of the Presidency Banks are to be so hampered in the field of local trade as to invite competition on favourable terms.

The Directors do not question the ability of the Exchange Banks to keep India supplied with funds, seeing that they have the resources of the London market to rely on; indeed experience has shown that these Banks are in a position to flood the Indian money markets with a superabundance of money or to curtail supplies at their pleasure. There is reason, however, to doubt the willingness of the Exchange Banks to import funds when the Secretary of State's terms for bills and wire transfers are not to their liking, or when a rise in the rates of interest in the Indian money markets would suit them. On such occasions they undoubtedly look upon the Presidency Banks as their legitimate local resort, while the Government of India are at the same time concerned, and not unreasonably, lest the accommodation claimed by the Exchange Banks should interfere with the sale of Council bills. In such circumstances conditions of stringency become pronounced, the money market becomes strained, and it would undoubtedly be to the advantage of Government and the public if the Presidency Banks were permitted to relieve the strain by the prompt importation of funds from England.

In the criticisms of the Exchange Banks reference is made to the Presidency Banks as "State Banks," to the large amounts of public money they enjoy free of interest, and to the prestige they gain by their connection with Government; but the disabilities which the Presidency Banks accept in order to retain these advantages, and the restrictions placed on their investments and mode of business are altogether ignored. The Exchange

Banks are probably also not aware of the expense and risk which the Government work entails.

In offering these observations the Directors do not consider they are invited to deal specifically with the objections of each of the Banks consulted. It becomes undesirable to do so if the Directors are correct in their view that the imitations under which the right claimed was proposed to be conceded have been entirely overlooked. It is for instance beside the question to urge, as has been done by one of the Exchange Banks, that 40 years ago the Secretary of State and the Government of India were alike opposed to the concession of a *general power* to deal in foreign exchange, and that consistency requires that this view should now be adhered to on the ground that it is applicable to the strictly limited powers which the Presidency Banks seek to obtain.

I am therefore to urge respectfully that the grounds on which Government were prepared to meet the representations of the Presidency Banks still exist, and that no valid reason for denying the resort contemplated has been shown. I am also to say that the Directors trust that His Majesty's Secretary of State for India will not allow weight to suggestions of possible suspicion and friction, but that he will consent to release the Presidency Banks from the unreasonable position of being the only Banking Institutions in the British Empire which are debarred by legislation from drawing petty drafts on London for the convenience of their own customers.

The Directors see no objection to Government being empowered by law to annul any particular election of Auditors, provided the power is only exercised when a selection is not made from Public Accountants; and in order to meet the wishes of Government the Directors would be willing to undertake to keep the minimum cash balance suggested.

I am to add that the Directors note with satisfaction the Secretary of State's willingness to assent to legislation conferring the powers described in clauses 3 and 4 of your letter under acknowledgment. They have only to suggest that the words "general partnership" (as in the present Act) should be substituted for the word "business" at the end of clause 3 (*e*).

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Enclosure No. 3.

No. 234, dated Bombay, the 8th June 1905.

From J. BEGBIE, Esq., Secretary and Treasurer, Bank of Bombay, to the SECRETARY TO THE GOVERNMENT OF INDIA, Finance Department, Simla.

I have the honour to acknowledge receipt of your letter No. 2035-A., dated 18th April last, on the subject of the proposed amendment of the Presidency Banks Act.

The first part of the letter states that representatives of certain of the Exchange Banks had been consulted by the India Office in November last with regard to the following proposals:—

(1) That the Presidency Banks should be allowed, when the Bank rate in India is 6 per cent. or higher, to borrow in London for the purpose of remitting funds to India;

(2) That the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India, but that they should be required to make their remittances in such form as may be approved by the Government authorities in each case; and

(3) That the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers, subject to a limit of 200*l.* in each case.

And you enclose a copy of the criticisms passed by the Exchange Banks on those proposals, and inquire whether the Directors wish to make any further observations on the subject.

In reply, I am instructed to tender the thanks of the Directors to the Government of India for communicating to them those criticisms, and for the opportunity afforded to them of replying thereto, and to say that in their opinion it is desirable that the objections raised should be considered

from the point of view of the Presidency Banks as well as from the point of view of the Exchange Banks. I am accordingly instructed to address you as follows :—

Taking, first, proposals (1) and (2), it seems perfectly clear that the main intention was that power should be given to the Presidency Banks to borrow in London under certain conditions and for a certain purpose, and that the power to deal in foreign bills was auxiliary and subsidiary to that intention and purpose, and was to be accompanied by a stated restriction. Only one specific objection has been raised to the proposal to confer power to borrow, and that objection has been brought forward by only one of the Exchange Banks. The objection is that borrowing by the Presidency Banks in London would be apt to have a disturbing effect on the London money market, and might even clash with the issue of Indian Government Loans and Treasury Bills. Now it is almost impossible to imagine that the extent of the borrowing operations of the Presidency Banks under the relative conditions to be imposed, could be of such an extent as to disturb the London money market, and there is no reason to suppose that the Presidency Banks would act in a way to affect the market against themselves. It may be safely said that their operations would never amount to more than a small sum in comparison with the assistance more or less regularly required by, and given to, the Exchange Banks by the London Market, for, as is well known, those Banks operate very largely themselves in that market, and appended to their published balance sheets will be found notes from which some idea may be gathered of the extent to which they rediscount their bills there. And not only do they themselves raise large sums in London, but some of them at least, as is also well known, work very closely and lend freely in the short loan market, leading at times to disturbance of the money market. This was exemplified quite recently. On the 16th of March last the City article of the *Standard* stated, "The scarcity of cash was increased by "the interruption of the cable service with Bombay which occasioned some "of the Eastern Banks to lend less freely to the market." It seems somewhat anomalous that one of the Exchange Banks which, themselves, make such large use of the London market, should endeavour to prevent the Presidency Banks from borrowing there on the ground that it would lead to disturbance of the market. Their own transactions must, in the nature of things, have a far more disturbing effect than those of the Presidency Banks could have, while the restrictions associated with the proposal, which the objection ignores, are such as to preclude all likelihood of the borrowing contemplated endangering the success of any Government operations.

The objections of the Exchange Banks are directed, with the above exception, against the subordinate but necessary proposal to give the Presidency Banks power to deal in foreign bills so far as is necessary to enable them to remit borrowed money to and from India. Two of the letters indeed, directly allege that the main object is for the Presidency Banks to obtain power to deal in sterling exchange, and the proposals could hardly have been more vigorously contested if the intention had been to confer unlimited and unfettered power to do so. The limitations attached to the proposals are almost entirely ignored, and the compass and aim of the suggestions have thus been misapprehended.

The letters are unanimous in pointing to the improved conditions in the money market as a reason against the proposals, and they are also more or less in agreement that the improvement is likely to be maintained. Holding such opinions, it seems somewhat unreasonable on the part of the Exchange Banks to object to the proposals, seeing these would become operative only when the Bank rate was 6 per cent. or over. One letter, no doubt, objects that the Bank rate is fixed by the Presidency Banks themselves, and the inference seems clear that they might raise the rate to the required level at will. Still, the same letter mentions that the periods of monetary stringency, which formerly affected Indian trade during certain months of almost every year, have happily been removed, and asserts an increasing tendency towards a steadier and easier money market. It has nothing to say against the rates as fixed by the Presidency Banks in recent years, but rather quotes them with approval, and it expresses the opinion

that the future will find rates still easier;' but apparently it considers there is a danger that the rates will cease to accord with market conditions if the present proposals are sanctioned. This objection takes no notice of the accompanying restriction which would, no doubt, become most stringent if there were signs that the Bank rate was raised to 6 per cent. against market conditions merely for the purpose of bringing the initial condition attached into operation.

The reasons assigned for the lower interest rates experienced of recent years are variously attributed to the new Currency Laws, to the policy of the Indian Council in the matter of the sale of Council Bills, and to the operations of the Exchange Banks. Now it seems to the Directors that the only correct explanation is to be found in the fact that the export trade has exceeded so largely the import trade, in value, leading to very large additions to the supplies of money in circulation. The Exchange Banks make no allusion to this, and it seems remarkable that they should ascribe a virtue to the Currency Act, the Indian Council, and themselves, which they do not intrinsically possess. These merely constitute the channels through which the trade balance has been working. It was the highly favourable nature of that balance that alone was the potential cause of the inward flow of money and the easier monetary conditions. With regard to the future the Exchange Banks do not appear to take into account the influence that will be exerted by the course of the external trade, and, in so far as this factor is omitted, their reasons for anticipating a continuance of the easy conditions lately experienced in the money market, and even still easier conditions, seem defective. Should the balance of trade continue on the same favourable lines as during recent years the conditions in the money market will no doubt remain easy. But if that balance is less favourable the money market conditions will probably be less easy.

The Exchange Banks also deprecate competition by the Presidency Banks in exchange business, and unanimously point to the fact that for many years they have financed the export and import trade. They also particularly define the limits and scope of the business of the Presidency Banks. It has already been pointed out that the Exchange Banks have misconceived the nature of the proposals, and there seems to be no doubt that they have also formed an exaggerated opinion as to the extent to which the proposals, if sanctioned, will enable the Presidency Banks to enter into competition with them in exchange transactions. Remembering that the main object is not to obtain permission to operate in exchange but to have power to borrow in London when necessity arises, and that the restrictions to be imposed are a Bank rate in India of 6 per cent. or higher, and Government approval of the form of the remittances in each case, it seems impossible to regard the proposals as conferring serious competitive power on the Presidency Banks. The remittance to and from India of the proceeds of loans cannot under any circumstances amount to more than a minute percentage of the total import and export trade. And the prospect presented by one of the Exchange Banks of the Presidency Banks bringing in money from London covering by sterling bills as soon as possible, repeating the operation and again covering, and so on, is opposed to both the spirit and letter of the proposals. There is, however, another side to this objection. While the Exchange Banks carefully allocate to themselves the exclusive privilege of financing the external trade, and to the Presidency Banks that of dealing with the internal trade, and strongly protest againt the Presidency Banks being allowed to encroach on their province as defined by themselves, they do not hesitate to compete with the Presidency Banks in the local and internal trade. The Exchange Banks do not mention this aspect of the case, except that one of them remarks that "since the new Currency Laws these Banks have been more disposed to send money to India for local purposes," but the fact is that all the Exchange Banks consulted compete, more or less keenly, in the internal trade, and this competition has been steadily growing and extending. The Directors maintain that in view of that competition the Exchange Banks are not entitled to plead competition with them in exchange business as a reason against the proposals.

Another objection brought forward is that the proposals have been made before and refused, and references are given showing the Government attitude

towards them in the past. On this occasion, however, the Presidency Banks have been able to satisfy Government as to the safety and desirability of giving the power asked for. The opposition of the Exchange Banks, it may be again remarked, is directed against the subordinate proposal to provide a means of remitting money borrowed from and to London, whereas Government and the Presidency Banks were chiefly interested in giving and obtaining the power to borrow. This objection may conveniently be connected with another which asks why permission should be accorded now when the only strong argument in favour of the proposals has ceased to exist, that argument being that with the London market thrown open to them for raising money, and with liberty to operate in sterling exchange, the Presidency Banks would be enabled to prevent or alleviate periods of monetary stringency. That is neither the only nor the strongest argument in their favour. The strongest argument is one that has only recently come into force, viz., the establishment of the gold standard, and, it may be added, the existence of a large gold reserve, which ensure safety from serious loss in the event of the Presidency Banks borrowing in London.

Another point deserving notice is the view presented of the Presidency Banks owing their prestige and resources largely to their State connection. So far as the Government deposits with the Banks are concerned, the exchange Banks have apparently failed to observe that these now form a much smaller proportion of the total resources of the Banks than formerly. I am directed to mention this, as it is desirable that such matters should be accurately stated in a discussion such as the present. Stress is further laid on the fact that the Government deposits carry no interest. But, apart from other considerations, the Exchange Banks cannot be unaware that the restrictions placed on the Banks' business by reason of the State connection constitute a far heavier charge than any ordinary interest charge on the State deposits would amount to. A claim is also made that if exchange banking is no longer to be regarded as a disqualification for Government business, the Exchange Banks should be allowed to compete for a share of the Government business, and the Government balances, on such terms as Government might consider satisfactory. Those terms would no doubt comprise restrictions similar to those imposed on the Presidency Banks including the publication of a weekly statement of affairs and very limited power to operate in exchange, and it need not be considered whether any of the Exchange Banks would find such terms suitable.

It is also objected that no public advantage would be gained and no public interest served by granting the new powers, also that there is less reason now than ever, in fact no valid reason at all can be urged, in favour of the proposals. The Directors and, they believe, the Government of India are satisfied that it would be to the advantage of the Government and the public as well as the Banks themselves to have access to the London market for the purpose of borrowing, and that the proposals are therefore justified.

With regard to proposal 3, while it is admitted to be of no great importance, the objections are raised that it would be liable to gradual enlargement, and so would create in the minds of the Exchange Banks suspicion and friction, that there would be no advantage to the public, and that it would inflict an injury on the Exchange Banks. In reply to these objections I have to point out (1) that there appears to be no grounds for the fear expressed as to a possible extension. No such extension could take place without fresh legislation. (2) The proposal was not brought forward on the ground that it would be advantageous to the general public but, as indicated in the proposal itself, because it would enable the Presidency Banks to afford facilities to customers which are commonly sought for by many private individuals from their bankers. And (3) the injury to the business of the Exchange Banks that would result can only be regarded as infinitesimal. The Exchange Banks appear to be most apprehensive where any competition with them, however trifling, in exchange is concerned, but appear to reserve the right to enter into competition with the Presidency Banks in local banking business whenever it suits them to do so. The Directors submit that no substantial reason has been given for denying to the Presidency Banks the small concession involved in this proposal.

The Directors are of opinion that the Exchange Banks have not made out a strong case against the proposals under reference and they feel themselves called upon to protest respectfully against the abandonment of the proposals which appears to be contemplated in your letter, and to beg that before any decision is come to their reply, as above, to the points raised by the Exchange Banks may receive due consideration along with the representations previously made on this subject by all the Presidency Banks.

With reference to the enquiry contained in the last paragraph of your letter, the Directors regard the suggested amendment of the Presidency Banks Act so as to empower them to borrow in London as by far the most important of all the amendments proposed, and they venture accordingly to beg that Government will leave the question in abeyance until it is decided whether the power to borrow is to be included in or excluded from the contemplated legislation.

The other contents of your letter do not appear to call for remarks at present.

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Enclosure No. 4.

No. G. P. L. 124-8, dated Madras, the 20th June 1905.

From J. KERR GREIG, Esq., Secretary and Treasurer, Bank of Madras,
to the SECRETARY TO THE GOVERNMENT OF INDIA, Finance Department, Simla.

I have the honour to acknowledge receipt of your letter No. 2035-A., dated 18th April last, on the subject of the "Amendment of the Presidency Banks Act" in which you inform me that in November last representatives of certain of the Exchange Banks were consulted by the India Office with regard to the following proposals:—

(1) That the Presidency Banks should be allowed, when the Bank rate in India is 6 per cent. or higher, to borrow in London for the purpose of remitting funds to India;

(2) That the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India, but that they should be required to make their remittances in such form as may be approved by the Government authorities in each case; and

(3) That the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers, subject to a limit of 200*l.* in each case.

You also enclose a copy of the criticisms passed by the Exchange Banks on these proposals, and you enquire whether my Directors wish to make any further observations on the subject.

Your letter further states that it has been ascertained that His Majesty's Secretary of State is prepared to assent to legislation conferring certain powers on the Presidency Banks under certain conditions which have been agreed to by the Banks provided all the concessions were granted, and you ask whether in the event of certain concessions, including that of borrowing in London, being finally rejected, my Directors will still be willing to fulfil their undertaking.

My Directors have carefully reconsidered the whole question of the amendment of the Presidency Banks Act in the light of the above-mentioned correspondence, and I am to say that in their opinion the whole matter hinges on the power of access to the London market on the part of the Presidency Banks, in times of stringency, to meet the requirements of the internal trade of this country.

The Exchange Banks in their replies agree that the legitimate function of the Presidency Banks is the financing of India's internal trade, while they express themselves as ready and able to finance the large foreign trade of the country, although at the same time they do not apparently propose to confine themselves to this particular branch, seeing that in one instance at least they are already in competition with the Presidency Banks for a share of the internal trade. It is not clear therefore to my Directors where their objection comes in. In any case it is somewhat one-sided.

If, as they say, owing to the success which has followed the policy of the Government of India in regard to their currency legislation, such stringency as has been experienced in past years is not likely to recur, the Presidency Banks will not in that case require to utilise the powers for which they ask, but my Directors submit that they should be in a position to do so if necessary; and they consider it absurd to suppose that the comparatively small requirements of the three Presidency Banks would be apt to have a disturbing effect on a money market such as that of London, and might even clash with the issue of Indian Government Loan and Treasury Bills.

The suggestions that power to borrow in London is merely the thin end of the wedge and that the Presidency Banks might in time become huge operators in sterling exchange may be dismissed without comment, as it is manifestly within the power of the Government of India to place such restrictions by legislation on the Presidency Banks borrowing as would obviate any attempt of this nature.

The Government of India have already taken steps in this direction by limiting their proposals to the extent that the Presidency Banks should only be allowed to borrow when the Bank rate in India is 6 per cent. or higher, and that they should be required to make their remittances to or from India *in such form as may be approved by the Government authorities in each case.*

As regards the alternative to borrowing which has been put forward, viz., that of increasing the Capital, my Directors would submit that it can scarcely be considered sound Banking policy to incur a permanent liability in order to meet a possible contingency which may or may not arise, or, if it does, only for a short period at the height of the busy season; while accepting sterling fixed deposits in London is open to a similar objection.

The Banks are not likely to resort to the expedient of borrowing until it is absolutely necessary for them to do so. The power therefore, to be of any practical use, must be of such a nature that it can be exercised without any delay, that is, by pledging their securities and remitting the proceeds by Council Bills or Telegraphic Transfers; and in this connection my Directors are unable to follow the remark to the effect that such a course would constitute a divorcement between liabilities and assets. It appears to them to be merely a temporary conversion of securities into cash for the purpose of investment in another direction.

In conclusion my Directors submit that the Exchange Banks have shown no valid reason why the power of access to London should be withheld from the Presidency Banks.

My Directors note with satisfaction that the Secretary of State is prepared to assent to legislation on the lines indicated, and they hope that the Government of India will now see their way to amend the Act in the manner and on the conditions already agreed to by the Presidency Banks.

At the same time I am to say that the proposed concessions, apart from that of borrowing in London, although desirable, are not of supreme importance, and my Directors would rather forego these facilities altogether than accept them with the suggested modifications.

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No. 34.

No. 27, Financial, dated London, the 16th March 1906.

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA.

I have considered in Council the letter of your Predecessor's Government of the 19th of October 1905, No. 351, in which they ask for a reconsideration of my Predecessor's refusal to allow the Presidency Banks to borrow in London, and to deal in foreign bills of exchange for the purpose of remitting money to and from India. I have carefully studied the reasons which have been urged in favour of these proposals and those which led my Predecessor to withhold his sanction, and I am of opinion that the previous decision must be maintained. I now proceed to state the grounds on which this conclusion is based.

2. My Predecessor objected to the proposed enlargement of the powers of the Presidency Banks for various reasons, of which the most important

related to its effect on the position of the Exchange Banks. He considered that the alteration of the law as suggested would expose those banks to competition in which they must necessarily be at a disadvantage as compared with the Presidency Banks, because the latter enjoy, through their connection with the Government, important advantages which the Exchange Banks do not share. He drew attention to the possibility that competition of this kind might lessen the usefulness of the Exchange Banks to the State and to Indian commercial interests.

3. The Government of India have considered this matter, and state in their letter under reply that they are satisfied that the proposals involve no unfair or indeed appreciable competition; but I regret that I am unable to agree with this opinion.

4. The desire is that the Presidency Banks may be empowered to deal in foreign bills of exchange subject only to the following restrictions:—

(1) That they shall buy bills on India only from the proceeds of loans contracted in England, and that they shall contract such loans only when the Indian Bank rate exceeds 6 per cent., and shall repay them after an interval of not more than six months.

(2) That they shall buy bills on England only for the purpose of repaying their English loans.

Under these conditions, the Banks would clearly be within their rights if, having borrowed money in England and bought bills on India, they immediately afterwards bought in India bills on England and used the proceeds to discharge their English loans. This cycle of operations could be constantly repeated so long as the Bank rate remained above 6 per cent.; and it is to be presumed that it would be repeated if it were found profitable. Nor is it easy to see on what ground your Government could intervene to prevent the Banks from exercising within the prescribed legal limitations powers that had been deliberately conferred upon them. I am, therefore, of opinion that these proposals would involve competition in exchange business between the Presidency Banks and the Exchange Banks.

5. Any claim on the part of the Exchange Banks to be guarded against competition in this branch of their business must rest, of course, entirely on the grounds stated by my Predecessor and referred to above, viz., that the advantages accruing to the Presidency Banks from their connection with the State are such as to make it impossible to regard their competition with the Exchange Banks as being on a basis of equality. I observe that the Presidency Banks in their letters now forwarded are at some pains to minimise these advantages; but, since they include the use without interest of Government balances seldom falling below three crores of rupees, I think that they must be regarded as substantial enough to justify, as a matter of fairness, and even to require (so long at least as there is not some very strong consideration of public interest to the contrary), the maintenance of the restriction now in question on the business of the Presidency Banks; a restriction which has been in force since these Banks and the Exchange Banks came into existence, and without which it is possible that some of the Exchange Banks might not have been established.

6. I may add that any injury caused to the Exchange Banks by the competition of State-aided rivals would, in my opinion, be detrimental to other interests besides those of the institutions immediately affected. The four Exchange Banks whose representations were forwarded by my Predecessor possess large capital and other resources. I find that they purchased 24½ out of 36½ crores of bills and telegraphic transfers sold by the Secretary of State in Council in 1904–05. It is beyond doubt that, owing to their high standing, it is advantageous to the Secretary of State (and it may reasonably be presumed that it is advantageous to merchants engaged in trade between India and other countries) to be able to carry on remittance transactions through their agency, and to make use of the other facilities which they offer.

7. It remains to be considered what alternative measures, if any, could be adopted for attaining the object which you have in view. The special conditions, for the removal or modification of which the proposals are intended, are described in the eighth paragraph of the letter of your

Predecessor's Government. It is stated that, under the operation of the present Currency System, the former practice of granting loans and advances to the Presidency Banks can no longer be maintained in ordinary circumstances. Your surplus balances must necessarily be held in reserve to meet the demands of importers of gold; and "the consequence is that while rival "institutions, by borrowing or transferring capital from London, can com- "mand the Government's whole resources," the Presidency Banks are debarred from receiving Government assistance towards meeting exceptional demands. I have not had submitted to me figures showing the diminution that has taken place in the amount of Government money held by the Presidency Banks, but I have no doubt that during the busy season of recent years it has been found difficult to grant them special assistance from your balances. It is not stated whether, in these circumstances, the Presidency Banks adopted the course which in similar circumstances would be regarded as the natural one in this country, namely, to offer additional inducements to depositors in the hope of increasing the amount of private deposits left with them. Assuming that all measures in this direction which present any reasonable prospect of success have been taken, and that the Banks do not contemplate making any addition to their share capital, it appears that the only additional resource to which they can look is an increase in your cash balances which might enable you to lend to them with greater freedom. It is, of course, not to be contemplated that the Government of India should, in the interest of the Presidency Banks, maintain its total balances at a higher level than its own requirements demand; but you might possibly find it advantageous in your own interest to endeavour to keep somewhat higher balances than you have had in some recent years, and any steps that might be taken in this direction would probably benefit the Presidency Banks to some extent. I gather from Lord Ampthill's letter No. 222, of 23rd June 1904, that the Government of India have for some time had under their consideration the question of the adequacy of their cash balances; and, should you desire to pursue the matter, any proposals that you may make will receive my careful consideration.

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No. 35.

Telegram from the VICEROY to the SECRETARY OF STATE FOR INDIA, dated 15th September 1906.

Amendment of the Presidency Banks Act. Please see paragraph 10 of our Financial Despatch No. 264, dated 21st July 1904. While amending the Act in accordance with paragraph 9, Clauses (*a*) to (*h*) of your Financial Despatch No. 15, dated 3rd February 1905, we propose to insert the following clause after Section 36, Clause (*m*) of existing Act: "The drawing of sterling "Bills of Exchange on London for the purpose of the remittances of their "customers subject to a limit of 200*l.* in any one month on behalf of any "particular customer." We trust that you will accept this minor proposal. We propose to introduce Bill on 29th September.

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No. 36.

Telegram from the SECRETARY OF STATE FOR INDIA to the VICEROY, Finance Department, dated 26th September 1906.

Your telegram dated 15th September. Presidency Banks. I regret that I cannot accept your proposal.

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# APPENDIX I.

Extract from Despatch No. 158, Financial, dated London, 16th September 1862.

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA.

49. I must now advert to a material point in connection with the privileges conceded to the Banks of Bengal and Madras, and, I suppose, of Bombay, viz., the power of dealing in foreign exchanges.

50. It appears to Her Majesty's Government to be very objectionable to allow banks so intimately connected with the Government as these banks, and which are entrusted with the custody of the Government balances, to deal in foreign exchanges. The Bank of England does not transact business of that description, which is, in fact, not banking, but speculative commercial business.

51. By Clause 5 of Act XXVII. of 1855 the Bank of Bengal was authorised, according to the instructions, and at the risk, of their constituents, to remit the principal, interest, or dividends of Government securities by public or private bills, whether payable in India or not, and to do all acts necessary or proper for the purpose of making such remittances. But the power to deal in foreign exchanges was not necessary for that purpose.

52. The question of giving a power to deal in foreign exchanges to the Bank of Bengal, which is now proposed, was formerly and on different occasions considered, and that power was always withheld. It is still more objectionable to give it when, as proposed by you, the business of issue is, in a greater or less degree, connected with the business of the bank.

53. Any banks to which the balances and treasury business of the Government are to be entrusted must be restricted to legitimate banking operations, such as those transacted by the Bank of England or by the Bank of Bengal as heretofore constituted.

54. This precaution is indispensable, for it cannot be conceived that a failure, on the part of the bank entrusted with the business of Government, to cash a Government note or bill or to pay any legal demand on the Government, would be held by the Native community to affect only the credit of the bank. Her Majesty's Government consider that any such occurrence would inevitably be regarded as a failure on the part of the Government itself, and the utmost care must be taken to guard against the possibility of such a contingency.

55. I must desire, therefore, that you will not conclude the arrangement which you were about to make with the Bank of Agra, which deals in foreign exchanges, and Her Majesty's Government cannot sanction the concession which you have made to the Bank of Bengal of allowing it to deal in those exchanges. I have not, however, advised Her Majesty to disallow the Act IV. of 1862, which gives effect to your intention in this respect, in order to give you an opportunity of making provision for the other objects of the Act.

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No. 127, Financial, dated London, the 4th June 1866.

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA.

I have considered in Council your Financial letter dated the 21st February 1866, No. 46, forwarding a letter from the Secretary of the Bank of Bengal in which he represents the inconvenience that has attended the withdrawal of the privilege, which was enjoyed by the bank under Section 28 of Act 4 of 1862, of drawing bills of exchange and letters of credit payable out of India for the use of their constituents in the Agency Department, and of buying bills of exchange payable out of India for the purpose of remitting funds to meet such bills or letters of credit, and requests to be allowed to revert to their former privilege, subject to such restrictions as might be prescribed for their guidance.

2. The arguments contained in the letter in question have not satisfied me that there is any sufficient ground for departing from the views taken in Sir C. Wood's Financial Despatches of the 16th September 1862, No. 158, and the 4th January 1864, No. 1, and I must, therefore, adhere to the decision therein conveyed.

3. It seems to me that notwithstanding the modifications of the arrangement with the bank, made in compliance with the instructions referred to, the accommodation desired by that institution for the benefit of constituents in the Agency Department may be afforded by the issue by the bank of post bills payable in India, which will find always a ready sale in this country, or by permitting constituents to draw upon the amount at their credit in the bank by cheques or bills payable to order.

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No. 289, Financial, dated London, 15th December 1866.

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA.

Para. 1. I have considered in Council your Financial Letter, dated the 6th October 1866, No. 220, forwarding a renewed application from the Bank of Bengal to be allowed to revert to the privilege which they formerly enjoyed, of maintaining drawing accounts with the Bank of England and Messrs. Coutts & Co., in order to enable them to make remittances by their own bills or letters of credit to their constituents in England, in respect of securities deposited with them in the Agency Department.

2. Of the inexpediency, as a rule, of allowing a bank which holds the Government balances to deal in foreign exchanges, you appear to be satisfied. But, with the restriction which you propose as to the bills to be purchased by the Bank, you consider that the rigorous application of the rule may be safely relaxed.

3. The soundness of the general principle under which the bank has been precluded from dealing in foreign exchanges can hardly be questioned. But, as you have strongly urged that if the bank be allowed to place the necessary funds in the custody of the banks specified, in the manner proposed by you, the convenience of the holders of Indian Government securities resident in Europe will be promoted without any undue risk being incurred by Government, I shall not object to accede to that arrangement, subject to the conditions which you have suggested, and on the distinct understanding that no bills are to be drawn on this country by the Bank of Bengal, except for the remittance of interest and dividends on Government securities or bank shares in their custody, and that, in the event of its appearing hereafter that any risk or inconvenience, not at present foreseen, will be incurred, the concession will be withdrawn.

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Extract from No. 225, Financial, dated London, 6th May 1875.

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA.

18. The engagements which the banks on their side should be asked to undertake will be only those to which they would probably by preference submit. If you incorporate them by special legislation, you may properly insert into the Act the restrictions which do not injure their commerce but increase the confidence they enjoy. They should be required to abstain from the hazardous business of foreign exchanges, and from lending on any but the most approved securities. A weekly statement, such as that which is issued by the Bank of England, together with a weekly classification of the securities on which they have advanced, should be supplied by a responsible officer, who should be bound to a true statement under penalty. You will at the same time require such confidential returns as may be necessary to place Your Excellency in full possession of all the requisite information with respect to the distribution of the resources of the banks and the character of their operations. If the information furnished by these returns is sufficiently detailed, it will not be necessary to reserve a power of inspection, which might impose upon you in the public view an undue responsibility for the management of the banks, and would in other respects place the Government in a false position towards them.

19. These restrictions are no more than you may rightly exact as a condition of the position of advantage in which the banks are placed by receiving Acts of Incorporation, and by their connection with your Government.

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No. 41, dated Fort William, the 25th January 1878.

From the GOVERNMENT OF INDIA, Financial Department, to the SECRETARY OF STATE FOR INDIA.

We have the honour to forward for your Lordship's consideration a Memorial* addressed to us by the three Presidency Banks, in which they pray that the Presidency Banks Act (XI. of 1876) may be amended, and that distinct and definite powers may, by the amending enactment, be given to the Presidency Banks:—

1st. To borrow money, either in India or in England, by pledge of assets or otherwise, or on such terms as to repayment, interest, &c., as the said banks may from time to time arrange;

2nd. To make remittances by bills of exchange or otherwise, as may seem expedient, to England, in payment of the price of stock or other authorised investments from time to time purchased or acquired for the banks in England, and also in repayment of loans arranged for there;

and that previous borrowings by such banks or either of them may be declared to have been valid transactions.

* This Memorial will be found on page 409.

2. We do not think that there is any objection to the Presidency Banks being allowed to borrow in India in the manner described in their memorial; on the contrary it seems right and necessary that they should have this power.

3. It rests rather with Her Majesty's Government to decide whether they shall be allowed further to borrow in England. The principal objection which occurs to us is, that if this power is conceded it must lead to some extension of the dealings of the banks in foreign exchanges which Lord Halifax viewed with such disfavour in 1862 (*see paragraphs* 49–54 *of his despatch No.* 158*, *dated* 16*th September* 1862). At present these banks may only buy and sell bills payable out of India in order to remit, at the risk of their constituents, the proceeds, whether principal, interest or dividend, of any securities or shares which they may buy or which may be in their charge as agents (*see Presidency Banks Act, section* 36, *clauses* (*K*), (*L*) *and* (*M*)). Even this liberty was only conceded by your Lordship with some reluctance. (*See Earl de Grey and Ripon's despatch No.* 127†, *dated* 4*th June* 1866, *and your Lordship's despatch No.* 289‡, *dated* 15*th December* 1866.)

4. But under the present circumstances of the connection between the Government and the Presidency Banks, we do not ourselves object to the concession to them of the full powers which they desire. If your Lordship should concur in this view and authorise us to undertake the necessary legislation, we should take care to require such returns as would show that the banks bought and sold bills payable out of India only for the purposes of the transactions so authorised and for which such purchases and sale are already permitted.

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No. 135, Financial, dated London, 2nd May 1878.

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA.

Para. 1. I have considered in Council your Financial Letter, dated the 25th January last, No. 41, forwarding for my consideration, a memorial addressed to your Government by the three Presidency Banks, praying that the Presidency Banks Act XI. of 1876 may be amended so that they may be empowered,—

"1st. To borrow money, either in India or England, by pledge of assets or otherwise, or on such terms as to repayments, interest, &c., as the said banks may from time to time arrange;

"2nd. To make remittances by bills of exchange or otherwise, as may seem expedient, to England, in payment of the price of stock or other authorised investments from time to time purchased or acquired for the banks in England, and also in repayment of loans arranged for there;

"and that previous borrowings by such banks, or either of them, may be declared to "have been valid transactions."

2. In forwarding these memorials, you state that you "do not think that there is any "objection to the Presidency Banks being allowed to borrow in India in the manner "described in their memorial; on the contrary, it seems right and necessary that they "should have this power," and that "it rests rather with Her Majesty's Government to "decide whether they shall be allowed further to borrow in England."

3. The principal objection which occurs to you is, that if this power be conceded "it must lead to some extension of the dealings of the banks in foreign exchanges, which "Lord Halifax viewed with such disfavour in 1862," § as, at present, the "banks may "only buy and sell bills payable out of India, in order to remit, at the risk of their "constituents, the proceeds, whether principal, interest, or dividend, of any securities "or shares which they may buy, or which may be in their hands as agents."

4. You also state, that "under the present circumstances of the connection between the Government and the Presidency Banks," you do not "object to the concession to "them of the full powers which they desire, and if your Lordship should concur in this "view, and authorise us to undertake the necessary legislation, we should take care to "require such returns as would show that the banks bought and sold bills payable out "of India only for the purposes of the transactions so authorised, and for which such "purchases and sale are already permitted."

5. Although you refer to the opinion of the Home Government in regard to the question of dealing in foreign exchanges contained in the despatches || quoted by you,

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* *See* page 514. † *See* page 514. ‡ *See* page 515.
§ Paras. 49, 54, of India Financial Despatch, dated 16th September 1862, No. 158 (p. 514).
|| India Financial Despatches, No. 158 of 1862 and Nos. 127 and 289 of 1866 (pp. 514–5).

you do not allude to and may possibly have overlooked, the Financial Despatch, dated the 6th May 1875, No. 225, regarding the proposed modifications of the agreements with the Presidency Banks for the conduct of the Government business.

6. In para 18 of that Despatch, the first, among other conditions, on which it was stated that the Secretary of State was willing that fresh agreements should be entered into with the banks was, that "they should be required to abstain from the hazardous business of foreign exchanges."

7. I could not sanction the continuance of large Government balances in the custody of any banks which had the power of dealing in foreign exchanges, which is in reality speculative commercial business, not legitimate banking, but, apart from that consideration, I am decidedly of opinion that the concession of a power of creating a foreign agency in England, such as would be the result of entering into loan transactions of the nature of those now contemplated, would admit of the banks locking up a large portion of their capital at so great a distance as to render it practically unavailable in the case of any emergency arising in India.

8. I must therefore decline to comply with the memorial of the banks, so far as it relates to borrowing in England.

9. As regards borrowing in India, in the manner suggested in the memorial, I request that you will obtain the opinion of your law officers as to the necessity for amending the Banks Act, as, although I am not unwilling to concede that power to the banks, I do not think it desirable to modify the existing Act or agreements with them, without some strong and clearly defined reason.

10. A copy of a report by the legal adviser to this Office, dated 7th March 1878, is forwarded herewith for the information of your Government.

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Enclosure.

REPORT by the LEGAL ADVISER, India Office, dated 7th March 1878.

The printed memorial of the Presidency Banks correctly states that it is an ordinary incident of banking business to obtain funds for temporary purposes by pledging assets; and it is indisputable that the Directors possess power to borrow unless such power is excluded by the legal instruments from which their authority is derived. *See* Bank of Australasia *v.* Breillat, 6 Moore P.C. 152, and Mr. Justice Lindley's "Treatise on Partnership," 3rd edition, page 283.

It appears to me that power to borrow in India, the country where the business is carried on, is not excluded by any part of the Presidency Banks Act, if indeed such power is not conferred on the banks by Section 36 of the Act, which enables them generally to do all such matters and things as may be incidental or subsidiary to the transacting of the various kinds of business there specified; and therefore the Presidency Banks are not now precluded by law from borrowing in India in the manner described in their memorial. I should express this opinion with more confidence, but for the fact that Mr. Paul, the Advocate-General, and another gentleman of eminence at the Calcutta Bar have advised that if the bank contemplates raising money on a large scale, and habitually, by pledge of Government paper as an intermediate stage in its total conversion into money, it would be desirable to have an express authorising clause inserted in the Act.

## APPENDIX XVI.

NOTE of EVIDENCE submitted by SIR DANIEL M. HAMILTON.

1. Increased trade can best be secured by increased production; therefore, questions connected with currency and finance should be settled with a view to encouraging the Producer to produce more.

2. According to the Royal Warrant, one of the main objects in view in appointing the Commission on Indian Finance and Currency is, to inquire whether the existing practice with regard to the Gold Standard and Paper Currency Reserves is conducive to the interests of India. The term "interests of India" I take to mean the interests of the people of India, and as four-fifths of these are agriculturists, I understand that the various questions at issue have to be decided with a view to the well-being of the great majority of the people, rather than in the interest of the small minority, and it is on this understanding I have penned the following remarks, believing that the interests of Trade will best be served by studying the interests of the great industry upon which the welfare of India rests.

### *The Sale of Council Bills and Transfers.*

3. Trade would not purchase these if it did not find them a convenience. Government ought, therefore, to sell as many as Trade will take.

### *The Large Cash Balances held in London.*

4. The writer of the attack in the "Times" says:—

> "These large balances mean that many millions of London money have been improperly withdrawn from India. They represent sums extracted from the taxpayer in excess of the requirements of the State; capital withdrawn from India for use in London, and there used, not in pursuit of Indian interests, but for the convenience of joint-stock banks trading on inadequate gold reserves."

5. The words quoted convey the impression that Government has bodily lifted the cash which it had lying in India, and dumped it down in London for the sole purpose of financing London bankers, but this is far from being the whole truth. What has really happened *is* this: Government has made over to the people of India, from the money it had lying there, a portion of what is due to them in settlement of the balance of trade, and has recovered the gold equivalent from the importers in England. For every sovereign so collected in London 15 rupees have been laid out in India, so that it is not correct to suggest that India has altogether lost the use of this money. It is rather when Government does *not* collect the gold in London, but leaves it to find its own way back to India, that India runs the risk of losing, as I shall show further on. Whether the gold collected in London against the currency so paid out in India is invested to the best advantage I shall discuss later.

### *The Treasury Balances.*

6. The Treasury balances remaining in India should be freely lent out in India to first-class banks, thus keeping the bank rate steady. As regards the statement that the Treasury balances represent money which has been extracted from the taxpayers in excess of the requirements of the State, this may be so in a technical sense, but when it is remembered that all money taken from the people is returned to the people in other ways, it will be seen that there is really nothing in the charge. Personally I should like to see more taken from the people in the same way, for, if the Government does

not take it, the people's creditors will. When Government takes it, the money is spent for the benefit of the people. When Government does not take it, the people lose it. The people of India are not yet able to look after themselves. They and their finances require shepherding, and their only shepherd is the Government.

*The Gold Standard and Paper Currency Reserves.*

7. The Treasury balances may be looked upon as the accumulated profit on Revenue Account. Besides the Treasury balances there are the balances belonging to the Gold Standard and Paper Currency Reserves, which now amount to something like 60 millions sterling, held partly in India and partly in London. As regards the location of these balances, the Gold Standard Reserve, if ever it is wanted at all, will be wanted in London to ensure the payment in England, at 1*s.* 4*d.* per rupee, of remittances from India. It ought therefore to be held in London and not in India, where it can never be wanted. I see no objection to investing the greater portion of the Gold Standard Reserve in easily realisable gold securities, not putting too much into one basket. The loss to India by not investing, at a time like the present when she is losing her opium revenue, and requires so much more than formerly for education, sanitation, Army expenditure, &c., would be serious. The interest on the investment of the Gold Standard Reserve might meantime be allowed to accumulate in gold coin.

8. With regard to the Currency Reserves, as much silver coin as is likely to be required to encash currency notes presented to Government for payment, should be kept in India, with a safe margin for emergencies, using it to supplement the Treasury balances as required by trade, the interest on the money so lent to the Treasury being credited to the Paper Currency Reserve. The remainder should, as far as possible, be paid out to the people in silver and paper currency in settlement of the balance of trade due to them, the gold equivalent being recovered in London by means of Council drafts and transfers, and the greater portion of same invested. As regards its investment, I would remark as follows :—

9. It is quite legitimate business for Government to lend out India's gold balances to first-class London banks or first-class financial firms on first-class security, or to invest them in first-class securities provided no more is placed in one basket than can easily be realised without loss when wanted, but it would, in my opinion, be better still if the gold balances were utilised in providing a regular orderly programme of capital expenditure in Indian railway construction, the provision of rolling stock for which there is such a constant outcry, irrigation works, &c.

10. The existing financial system upon which depends the development of India is that known as the "Gamble in rain," so christened by Sir Guy Fleetwood Wilson, late Finance Minister for India. There is no method in it. If the rainfall is short, development stops or is curtailed, whereas it ought to proceed all the faster, so that the people might be better able to stand against the short rainfalls which are sure to recur. Some years ago Government, with a strong hand, suppressed rain gambling in Calcutta. Why is the evil allowed to live on in Simla and Whitehall? Government fails to discriminate between productive and non-productive debt. It looks upon all debt as an evil, whereas productive debt is a blessing and not a curse. This indiscriminate worship of the "Gamble in rain," otherwise the "Avoidance and reduction of debt," is the worship of evil. It is unsound finance not to borrow when, by means of the borrowing, India would gain more than its cost. To save the interest, Government loses the principal of the people: 100*l.* of development lost for the sake of 4*l.* of interest. Here is something better than ninepence for fourpence, but Government has not the vision to see it. The Provincial Governments, however, see it, and in proof of this I would refer the Commission to the speech of Sir William Duke, member of the Executive Council of the Government of Bengal, in the course of the provincial budget debate on 5th March last. In returning thanks to the Government of India for the unusually large amount which

had been allotted to Bengal from last year's "gamble," Sir William remarked:—

> "I think this Council will be little disposed to look a gift horse in the mouth, and that it will share with me the hope that as the disposal of this great accession to our resources will be spread over a considerable period, we shall escape those of the evils unusually attendant on a policy of doles which arise from ill-considered schemes and hasty, and therefore extravagant expenditure. At the same time, I may be permitted the pious hope that as the Government of India become more assured as to the certainty of expansion in their revenue, as they recognise, for instance, that the steady annual expenditure of 10 or 12 or more millions on railways, whatever the ups and downs from year to year, must in the end produce a corresponding average increase in receipts. As they acquire more certainty of this they may be willing to assign us an increasing share of expanding revenue, for it is only so that we can develop a regular and progressive policy of provincial finances, that the Local Government can feel that it really possesses and can exercise the responsibility for internal development which should rest upon it, and that this Council can exercise the influence on provincial finance which is contemplated by its constitution, and which the Government desires to accord to it."

Gambling and beggary go hand in hand, and no stronger condemnation of the financial system known as the "gamble in rain" can be found than in these remarks of Sir William Duke.

11. I would therefore suggest, for the consideration of the Commission, that instead of lending out India's gold to London banks and financial houses which use it largely for the development of foreign countries, it be utilised directly for the development of India, for, to whatever extent foreign countries are developed by India's gold, to that extent is India's power of development curtailed. If, for example, it is desirable that a railway and irrigation programme involving a capital expenditure of 50 millions sterling spread over five years be gone on with, 10 millions sterling should be found and spent every year till the programme is completed. In a good year the Government balances would be large, and therefore the borrowing would be small; in a bad year the borrowings would be larger and the balances smaller, but whether the year were good or bad 10 millions of balances or borrowings would be spent, and the arrested development from which the country now suffers under the spasmodic "Rain gamble" finance would disappear. The gold balances would be the regulator which would regulate the amount to be borrowed, and would eusure the regular development of the country. Whatever money might be wanted for famine relief in a bad year should be found by temporary borrowing and not come off the development programme; or the million sterling which is taken out of the revenue every year for famine relief might be kept for that purpose and lent out in London or Calcutta at short call instead of being juggled away as it is, in the reduction and avoidance of debt. The Gold Standard Reserve need not be encroached upon, though I personally see no objection to it also being used in the same way as the Currency Reserve.

12. In this way India's balance of trade would construct her railways and irrigation works. It would be a living thing, and instead of developing foreign countries or lying dead and buried in Government vaults in India, where it is not wanted, or in the hoards of the people, it would be spent in developing India. Government ought, therefore, to do all in its power to secure as large a share as possible of the gold balance of trade, by getting possession of every sovereign it can before it leaves England, or by inducing the gold which does go out to India, to flow into the Government treasuries, to be used in the way suggested.

13. That a live railway or irrigation canal would form a stronger currency reserve than dead coinage is proved by the fact that it grows in value whereas the dead coinage does not. Ten millions sunk in railways and irrigation works yielding 5 per cent. would grow into

twenty millions in fourteen years. The currency would therefore be doubly secured by being invested, and if gold should by any possibility be wanted at any time the security of the railway or canal would provide whatever is wanted. Besides the interest yielded, the crops resulting from the irrigation would probably be worth a further fifty millions sterling for the railways to carry; the advantage of investing, therefore, rather than keeping the reserves lying idle, is apparent.

14. The Government Blue Book shows that whereas 50 per cent. of the Currency Reserve was invested fifty years ago, the invested portion has dwindled down to 22 per cent. at the present time. The difference of, say, 30 per cent. is equivalent to a capital sum of thirteen millions sterling which is lying idle as compared with the former practice, and when gold cannot be claimed by the people of India in exchange for either currency notes or silver I do not see why even a larger share than before should not be invested. The loss on the 30 per cent. alone amounts to 600,000*l.* yearly, in addition to the loss of development, which is still more serious.

15. I should also like to enquire if the gold portion of the currency reserves stand in the Government books at fifteen rupees per sovereign? If so, the valuation is not correct, for if there are at the present moment 26 million sovereigns or gold securities in the currency reserve these can be converted into 57 crores of rupees as against the 40 crores shown by the Government figures. There is therefore an additional currency reserve here available of 17 crores of rupees.

16. It might be well, for the sake of clear accounting, if some form of Government bond were created which would be handed to the Treasury Balance department or Paper Currency and Gold Standard departments in exchange for any money lent by these departments to the Railway or Irrigation departments. Should gold be wanted for gold standard or other purposes these bonds would be given to the public in exchange for gold, and recalled when the gold was no longer wanted.

*The Financing of Trade.*

17. With regard to the criticism that it is not the business of Government to finance trade as it does by selling Council bills and transfers, I would again point out that in so doing Government secures possession of the gold balance of trade and holds it for the people (for the Government and the people are one), and the equivalent in rupee currency being paid out in India goes to fertilise the country. When Government stands aside and allows the gold to flow past it, to bury itself in the desert, its fertilising power is lost, and with it is lost the many millions sterling worth of produce which India has thus given away without receiving produce in exchange, for whatever portion of the gold received in exchange is hoarded is lost to India and to the world. The loss is therefore a double one—India is depleted of many millions sterling worth of produce, plus the fertilising power of many millions sterling of currency. Even if the fifteen million sovereigns which India imported last year were to remain in circulation, she never recovers the fifteen millions worth of produce exported in exchange. Is it surprising that almost every district of India has its turn of being converted into a workhouse? If the producers, who form the vast majority of the people in India, received the gold in exchange for their produce, and chose to bury it, it might be said they had a right to do what they pleased with their own, but owing to the want of a banking system for the people, to which I shall refer later, the producer does not get his own—another man gets it with the result I have mentioned.

18. The loss which India would suffer if Government declined to finance trade by refusing to sell Council bills and transfers can be shown in another way. Take, for example, last year's trade. In his last budget speech Sir Guy Fleetwood Wilson gave the nine months' balance—April to December—as 61¾ crores of rupees, or about 40 millions sterling, equal to 53 millions, or, say, 50 millions for twelve months. If Government, by the

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|---|---|---|
| sale of Council bills and transfers, secures this, the people receive payment in the currency of the country to the same extent - - | | £50,000,000 |
| In addition to this, Government have the gold in hand for investment in railways and rolling stock, irrigation works, &c. - - - - - | £50,000,000 | |
| *Less* what Government has to pay out for the home charges - - - - | 18,000,000 | |
| | 32,000,000 | |
| *Also deduct* the amount required for the purchase of silver for coinage (average for the last ten years, 6,117,516*l.*) say - - - | 8,000,000 | |
| | | 24,000,000 |
| *Total Capital gain to India by the sale of Council drafts and transfers* - - - - - - - | | £74,000,000 |
| Whereas if Government did not finance trade by the sale of Council drafts and transfers, but allowed the gold to flow back to India to circulate as gold currency, the currency would be increased by - - - - | | £50,000,000 |
| *Leaving a net Capital loss to India if trade were not financed by the sale of Council bills and transfers of (which loss is really a loss of produce)* - - - - - | | £24,000,000 |

in addition to the loss of development which is still more serious.

An additional loss of produce which India would suffer if Government did not finance trade but allowed the gold to flow to India may be illustrated in this way:—For the year 1911–12, after paying the home charges and the cost of silver, &c., the balance of India's exports over her imports fetched 34*l.* millions sterling in the European markets - - £34,000,000

| | |
|---|---|
| In payment of this the people who raised the produce received 51 crores of rupees, having a silver intrinsic value of - | 23,000,000 |
| *Leaving a loss of produce to the people of (which loss is also a loss of Capital)* - - - - - - | £11,000,000 |
| Whereas if the people leave Government to collect the money for them in Europe by selling Council drafts and transfers, Government converts every sovereign into twenty-two rupees. Thus, while the people with their fifteen rupees can purchase only that amount of produce, Government can purchase for them twenty-two rupees worth of produce, the seven rupees difference on each sovereign representing a gain to the people of eleven millions sterling on the 23*l.* millions of silver purchased to make the 51 crores of rupees - - - | £11,000,000 |

19. It is therefore not only a convenience to trade but a gain to India when Government sells Council bills and transfers over and above the amount required for the home charges. The more it sells the greater is India's gain. Every sovereign which goes into circulation instead of into the Government Treasuries is a loss of seven rupees worth of possible railways and irrigation canals or any other reproductive investment, plus a loss of fifteen rupees worth of produce.

### *India's Loss of Produce.*

20. The loss may be briefly stated in this way. Besides paying for the home charges, India last year exported over 30*l.* millions sterling worth of produce. In exchange for this she received 30*l.* millions of gold. This gold represents a title to draw from Europe thirty millions sterling worth of produce; but while the gold is hoarded either in the Government vaults or in the homes of the people, or if it is circulating in India as currency, the titles have never been presented in Europe for payment, and therefore India has parted with her produce for nothing. To whatever extent gold is in the

hands of Government, produce can be claimed from Europe to the same extent. The gold absorbed by the people, whether it is in circulation or in hoards, remains uncashed. I understand that during the last ten or twelve years India has absorbed 108*l.* millions of sovereigns and bullion, therefore she has not yet received from Europe the 108*l.* millions worth of produce to which she is entitled. During last year the loss amounted to 18*l.* millions sterling.

*The Fowler Committee and the proposed Gold Currency.*

21. The Committee recommended the introduction, sooner or later, of a gold currency, in the belief that the hoarding of gold in preference to silver would not materially increase. I quote their words :—

> "As regards the hoarding difficulty in India we are not satisfied that the danger therefrom is so great as has been suggested. . . . While we must look to the continuance of the habit of hoarding, we may also feel satisfied that until gold has penetrated into general circulation, so far as the relatively small transactions of India permit, there will be no more materially increased temptation to the natives of India to hoard gold instead of silver. Moreover, the introduction of a gold currency into India would not be an untried experiment. As has been shown above, gold coins were in common circulation in India generally within living memory, and expressly stated in 1806 to form the principal currency and money of account of Madras" (para. 50 of Report, C. 9390).

22. Events having falsified the view that the hoarding of gold would not be materially increased, the recommendation based thereon falls to the ground. The Fowler Committee would also seem to have overlooked the important fact that when gold and silver were in common circulation they had a fixed value in relation to each other, and were both saleable at their nominal value in the markets of the world; but the case is now entirely different, and we see before our eyes Gresham's law in active operation driving the gold out of sight.

23. As for there being no materially-increased temptation to the people of India to hoard gold rather than silver, what greater temptation could a man have than to be offered twenty shillingsworth of gold for thirteen shillingsworth of silver?

24. The Fowler Committee were opposed to Government being compelled to pay out gold in exchange for rupees, and their recommendation in this respect should be rigidly adhered to. It would be the height of folly for Government to give twenty shillingsworth of gold for thirteen shillingsworth of silver, or for a currency note of no intrinsic value whatever. Having obtained possession of the gold, Government should hold on to it for the benefit of the people at large, and not run the risk, when gold is becoming more valuable day by day, of its getting into the hands of the few who may bury it.

25. But apart from these considerations it would, in my opinion, be unwise to rest the trade of India on a gold currency, for in the event of a world panic arising, with its consequent scramble for gold, the people would give much more than fifteen rupees for a sovereign, and then where would exchange be, and where would Government look for the five millions sterling extra taxation required for its home remittances? With the trade of the country resting on a legal tender currency of silver and paper, and a big powerful gold reserve in London to ensure stability of exchange, the trade of India would pursue the even tenor of its way, while countries with a gold currency collapsed, as America did five years ago.

*The Fowler Committee and a State Bank for India.*

26. In paragraph 22 of their report the Fowler Committee expressed doubt as to whether the banking facilities of India were keeping pace with its requirements, and in an appendix to the report Mr. Hambro, a member of the Committee, with a view to improving the banking facilities of the

country, made a definite proposal that a strong bank should be established somewhat on the lines of the Bank of England or the Bank of France, the management of the currency, &c., being entrusted to the proposed bank. The proposal has lately been revived in the "Times." That there is great room for a great banking business, whatever form it may take, anyone familiar with the district life of India is only too painfully aware.

27. The great want, or what I may call the fatal defect, in Indian banking is that it makes absolutely no provision for the financing of the great industry of the country—agriculture. Two hundred and fifty millions of the people of India are directly dependent upon agriculture, and yet this gigantic industry has hitherto been left to the tender mercy of the small money-lending capitalist. There are Presidency and Exchange Banks and other financial conveniences for the trader, but the most important man in the country, the man upon whom all India depends, the man without whom neither the trader nor the banker nor Government could exist, is left outside the reach of cheap money. The producer, when he wants to borrow, as he always does, has no security but his labour and his ungrown crops to offer, and as he is already practically insolvent, and may die before his crops are reaped, he has to pay for his finance whatever price the man with the money chooses to ask. Trade cannot increase unless produce increases, and produce will increase in exact ratio to the inducement offered to the producer. If the producer has to pay anything from 25 to 100 per cent. for his finance the inducement to produce is wanting, for it means that all he makes over and above his bare living goes to his creditors. The secret of successful industry is to buy your finance cheap and sell your produce dear. The Indian buys his finance dear and sells his produce cheap. His creditor generally fixes the price of both. The ryot feeds the financier in the fat years and the Government feeds the ryot in the lean. Trade flourishes on the labour of a bankrupt people, for three-fourths of the people of India are unable to pay their debts. The country is run by a system of forced labour, the force being that of the money-lender. Ought Government to look on in the good years and watch a large portion of the surplus gold being buried by the small minority, or ought it to intercept all the gold it can for the benefit of the people?

28. We see in British India to-day 250 millions of people living off 250 million acres of land. All the wealth the people can ever hope to have is what each can get out of his little one-acre patch, and the patch grows smaller as the years go on, for the population increases, but the land does not. If the people of India have only this to look forward to, is it not absolutely essential that they, and not their creditors, should reap the harvest which they sow, but they never will reap it while the present financial conditions last. Government is now making great efforts, and rightly, to improve the agriculture of the country, but unless the people themselves are to get the increase resulting from their labour the efforts of Government will be very largely in vain. Improved agriculture and improved finance must go together. It is the organisation of its capital that India wants more than its increase. There is plenty of capital in the country, but it is mainly in the wrong hands—the hands of the non-producers. The greatest economic problem before India to-day is how to shift the control of capital from the hands of the non-producers to those of the producers of the country's wealth, and until that problem is solved we shall look in vain for much progress.

29. This is the great problem to which a State Bank should address itself. That the industry of 250 millions of people has to pay anything from 25 to 100 per cent. for its finance is sufficient evidence that there is vast room for a great banking business. Whether the business should be done by a State Bank formed by a combination of the Presidency Banks, with branches all over the country, or by the Presidency Banks being given enlarged powers, and acting independently, is immaterial, but in one way or another a bridge must be built by which the producer can reach the cheap money market. The State Bank or the Presidency Bank could not be in touch with the individual cultivator, but by means of the Co-operative

Credit movement, for which there is so great a demand, that direct touch would be attained through the Village Co-operative Credit Unions which are now being developed, the Unions paying into or drawing out money as required from the enlarged Presidency Bank. As a matter of fact the Village Co-operative Societies after a time find locally most of the money they require. Perhaps the district treasuries could be made the connecting links with the district Co-operative Unions.

30. Having thus got into direct touch with the money market, the Indian producer would lead the world, for his wants being so few his balance would be large; and, working as he would do for himself and not for his creditors, India would advance by leaps and bounds, the people would have plenty to tide them over the bad years, the famine problem and the many other problems, such as education, police, sanitation, which turn on finance, would be solved. I see the "Times" calling for an increased Army expenditure in India; this too, as well as the lost opium revenue, must come from the ryot, for it is upon the ryot, perhaps more than on the sword, that India rests. The ryot pays the land revenue, which pays the Army; the ryot's produce runs the railways and fills the steamers; the ryot grows the cotton and the jute for the mills, and the food for the men who work therein. The ryot buys the Manchester piece goods, and the better off he is the more he will buy. It is the ryot who does all these things, but until Lord Curzon passed his Co-operative Credit Societies Act there was no man who cared for his financial soul. The movement is, however, starving for want of men to develop it. Only one civilian can be spared from each province to develop Co-operative Credit. In Bengal that one man, with an Indian assistant or two, has to preach to 50 or 60 millions of people in 137,000 villages. Not one thousand villages have yet been entered. Government is calling out all over India for honorary workers to push Co-operative Credit, but the response is small. The very success of the movement threatens to stop its development, for the time of the men set apart for the work is now so taken up in the supervision of the existing societies that they have little or no time for further propaganda. What I would therefore suggest is, that when the gold standard has been rendered quite secure, if it is not so already, the profit on the coinage of silver, or on the increased investment of the currency reserve, be partly devoted towards the payment of whatever staff, European or Indian, may be necessary for the development of the Co-operative Credit movement. The movement has already proved itself to be the most powerful uplifting movement of the time in India, not only financially but socially, and needs no further proving, as the Government blue books show. All it wants is men to develop it, and the money to provide these should be found even if other things have to starve. Money spent in directly increasing the production of the country will repay itself a thousandfold.

31. It has been suggested that the turning loose of a large amount of currency in India without an outlet may cause redundancy and lead to a rise in prices which will tell hardly on the poor with fixed incomes. It is certainly no advantage to a country to increase its currency unless the increase in currency leads to an increase of produce. The development of a sound banking system for the people, combined with railway and irrigation development, will, by increasing production, obviate any danger on this score, and for this reason, among others, I would strongly advocate the development of the Co-operative Credit movement. When 100 villagers club together and stand security for each other, their individual security is increased a hundredfold. Their credit is increased to the same extent. Credit and faith are one. From time immemorial the Indian producer has been calling for credit, so that the money markets would have sufficient faith in him to lend him cheap money. The way has been found in the Co-operative Credit movement, linked up with the Presidency Banks. "Strong banks," says the well-known Indian financial writer, "Rex," "are "centres of credit. They uphold it, as it were, on a cantilever system. "If well conducted they become the measure of credit which, when pro- "perly regulated, has more influence as a factor of wealth and prosperity

"; than all the mines of all the world." In proportion as the credit of the ryot increases his production will increase, and more currency will be wanted to move it. The increase in production, resulting from improved banking and increased railways and irrigation, will thus keep pace with and absorb the increased currency, and tend to keep prices at a level which will not tell hardly on the poor with fixed incomes. India wants an extension of credit, but we must be careful to see that the right men, the 250 million producers, get it, otherwise they may be even worse off than they are now.

32. Within the last few years a number of new banks have come into existence, but they have not the resources at their command to finance the agriculture of India, even if they were to cater for that business. It is not lacs of rupees that a business of this magnitude requires, but hundreds of millions sterling, for, large though the external trade is, the internal is greater still. The financing of 250 millions of Indian agriculturalists who are now out of the reach of cheap money is a big problem, and wants something big in the way of banking.

33. We must be very careful not to encourage the growth of a mushroom banking business for the people, and this for political as well as economic reasons, for it is the Government which is blamed when anything goes wrong. The Bank of Burma sounds a warning. Even a Government auditor could not possibly go into the details of a banking business sufficiently to guarantee that everything was in order, whereas the linking up of the Presidency Banks (either separately or together as a State Bank) with the great industry of the country by means of the Co-operative Credit movement, would give a powerful stimulus to sound banking, and inspire in the people that confidence without which a reliable banking business cannot be developed. If the powers and capital of the Presidency Banks were enlarged (or a State Bank formed), the Exchange Banks might take a capital interest in them, with a seat on the Board of Directors, for the linking up of the great agricultural industry directly with the money market, and the consequent exclusion of the usurer with his sterilising rate of interest, would have an enormous effect in stimulating production and increasing the export and import trades by which the Exchange Banks live.

*The Financial Organisation of the India Office.*

34. Although there is absolutely no reason for thinking that the Finance Committee of the India Office have ever deliberately made the interests of India subservient to the interests of the London banks and financial houses, I think it would be better, in the fierce light which beats upon the throne, if London bankers did not have the ruling voice in the management of India's finances and cash balances. The Finance Committee might be composed as follows:—An Indian civilian or non-civilian who has held the post of Finance Minister or Financial Secretary to the Government of India; a Presidency Bank manager, an Exchange banker, a London banker, a European mercantile man with Indian experience, an Indian mercantile man, or an Indian member of the Indian Civil Service.

*Summary of Sir Daniel M. Hamilton's Evidence.*

1. That as trade would not purchase Council bills and transfers if it did not find them a convenience, Government ought to sell as many as trade will take.

2. That in the interests of India, apart from trade, Government should secure as large a share as possible of the gold balance of trade, by the sale of Council bills and transfers, and by inducing the gold which does go to India, to flow into the Government coffers there.

3. That to use, for currency purposes only, the gold balance of trade, would be to destroy half its value.

4. That the gold secured by Government be made to serve the double purpose of currency and capital expenditure—paper currency or silver being

given to the people in payment of their produce, and Government interest bearing bonds being given to the reserve treasuries in exchange for the gold drawn from these treasuries for capital expenditure.

5. That to whatever extent gold is hoarded, or is in circulation, India loses the equivalent in produce.

6. That this loss now amounts to many millions sterling yearly.

7. That to save India from this loss of produce it is necessary that Government secure the gold which pays for the produce.

8. That the gold secured by Government be utilised, as far as possible, for the development of India, rather than lent to London banks and financial houses for the development of foreign countries, or even of England.

9. That the regular and orderly development of India requires a regular and orderly system of constructive finance, and not a spasmodic system such as that known as "the gamble in rain."

10. That a regular system of constructive finance, and an orderly development programme can be provided by means of the Government reserves and balances, combined with borrowing.

11. That in the event of a world panic arising, with its consequent scramble for gold, a silver and paper currency, backed by a powerful gold standard reserve, will save the trade of India as well as the finances of Government.

12. That to give twenty shillings worth of gold for thirteen shillings worth of silver, or for a piece of paper, is not sound finance.

13. That to lose fivepence of silver *plus* 1*l.* worth of produce in order to save one-eighth of a penny is not sound finance.

14. That raising the rate of exchange above 1*s.* 4*d.* curtails exports, and weakens the gold standard reserve.

15. That Government should reserve the right to refuse to give gold in exchange for silver or paper currency.

16. That the gold standard reserve be held in the place where it is most likely to be wanted, viz., London, and the greater portion invested; the interest, meantime, being allowed to accumulate in gold coin.

17. That India is losing heavily by having a much smaller percentage of her currency reserves invested than was formerly the case.

18. That the currency reserves be held partly in London and partly in India, and invested in the development of India as suggested (the capital expenditure department paying to the currency reserve interest on the money invested) keeping in hand a sufficiency of silver currency for the encashment of currency notes presented to Government for payment. The Treasury department should be able to say from past experience how much is likely to be required for this purpose.

19. That the silver so kept for the encashment of currency notes, when not required for that purpose, be lent out at interest to the Treasury balance department when required by trade.

20. That the Treasury balances be lent out freely at interest to first-class banks, when required to finance trade.

21. That the great defect in Indian banking is that it makes no provision for the financing of the great industry of the country, agriculture, by which 250 millions of the people directly live.

22. That as trade can increase only as produce increases, the first thing to be done is to encourage the 250 millions of producers to raise more produce.

23. That so long as the usurer takes all the profit, it is not worth the producers' while raising more produce.

24. That to make it worth the producers' while to increase production, he must be relieved from the usurer and brought within reach of the cheap money market.

25. That this can best be done by linking up the producer with the Presidency Banks (either jointly or separately) by means of the Co-operative Credit system of finance.

26. That more men ought to be provided for the development of Co-operative Credit, their salaries being provided from the profit on the currency after the gold standard has been made secure, or from the profit resulting from the proposed increased investment of the currency reserve, or from whatever other source may be thought best.

27. That with the great increase in the export and import trades, which would result from the financing of the producer, the Exchange Banks would greatly benefit. They might, therefore, take a capital interest in the enlarged Presidency Banks, with a seat on the board of directors, Government also being represented on the board.

28. That the Finance Committee of the India Council be so arranged that London banks shall not have the deciding voice in financial questions. The Committee might consist of:—One who has held the appointment of Financial Member of the Government of India, or been Secretary to the Government of India in the Finance Department, a Presidency Bank Manager, an Exchange Bank Manager, a European mercantile man with Indian experience, an Indian mercantile man, an Indian member of the Indian Civil Service.

29. The only way to save India's gold balance is for the Government to secure and use it. The larger the balance is, the better for India. The only sound method of increasing the balance is to encourage the producer to increase production, and the only proved method of accomplishing this is the Co-operative Credit method. I trust, therefore, that from the enormous sums which I believe to be available both now and in the future, the little required to provide the additional men wanted to develop the Co-operative Credit movement will not be refused.

## SUPPLEMENTARY NOTE A.

*Scheme for the utilisation of the Currency Reserves in such a way that the following results will be obtained.*

A.—A regular reproductive development programme.
B.—The abolition of the "Gamble in rain" programme.
C.—The abolition of the gamble in silver.
D.—The setting free immediately of 12*l.* millions sterling for reproductive purposes, &c.
E.—The setting free of a further 13*l.* millions sterling when required.
F.—The holding of silver or securities sufficient to pay off the entire paper currency in circulation.
G.—The strengthening of the gold standard reserve.
H.—The keeping of the Indian bank rate at the London level.
I.—The improvement of the credit of Government.
J.—Relief to the money markets of the world.
K.—Increase of employment in India.
L.—Relief of unemployment in England.
M.—Help to secure the peace of the world.

1. The gold and gold securities in the currency reserves amount to 27*l.* millions sterling. This is valued in the Government books at fifteen rupees to the sovereign, or 40 crores of rupees, but it can purchase silver

sufficient to coin 57 crores of rupees. As the currency notes out against this 27*l.* millions sterling amount to only 40 crores of rupees, there are 17 crores of rupees available in excess of what are required to encash every currency note in circulation if presented for payment to-morrow. This money (nearly 12*l.* millions sterling) can therefore be freed immediately and still leave sufficient silver or securities in hand to encash every note out.

2. Part of this surplus might be used for strengthening the gold standard reserve, and the balance for reproductive purposes such as railways and irrigation.

3. As regards the remaining currency reserves which would be sufficient to encash every note in circulation, fifty years ago or less it was customary to invest 50 per cent. of the reserves. Now, the invested portion amounts to only 22 per cent. The difference is equivalent to a capital of 13*l.* millions sterling, which might also with perfect safety be set free for reproductive purposes.

4. If, however, Government desire to have this 13*l.* millions sterling in coin, it is still possible to have it so and at the same time proceed with the development programme, thus:—As the construction of the railway or irrigation canal proceeds the cost of same to be replaced in the currency reserve either by paying in from the Government surplus in a good year or by borrowing in a bad year on the security of the extent of railway or irrigation canal constructed, or partly from the profit on coinage when available. In this way the currency reserve is kept in metal, and India is the richer by a railway or irrigation canal, and if Government secures the gold balance of trade, borrowing will be reduced to a minimum or entirely abolished.

5. Find the average silver purchases over a period of years, good and bad, and every year coin the average and a little more. This will kill the gamble connected with the existing spasmodic method of purchase and protect Government from being cornered.

6. The coined silver lying in the currency reserves to be lent at short call to the Treasury department when required by trade, the currency reserve department receiving interest thereon.

7. The Treasury balances so fortified from the currency reserves to be lent out to first-class banks at 1 per cent. under the London bank rate, with a minimum of 4 per cent., on the condition that the banks relend the money to trade at 1 per cent. profit. I understand that now, if the local bank rate is 8 per cent., Government expects the same, and, therefore, as the banks make no profit on the loan, they borrow as little as possible, with the result that both Government and trade suffer, the former by having its money lying idle, and trade by having to pay a high bank rate.

8. By using the gold balance of trade in the way suggested Government will have less to borrow, and its credit will improve accordingly.

9. The spending of millions sterling in railway and other material will increase employment in England.

10. The laying of the railways and the construction of canals will increase employment in India.

11. The return to Europe of the gold spent in railway material will ease the world's money markets.

12. The gold reserves will increase with the growth of the export trade, and so provide the Empire with its most powerful weapon.

D. M. HAMILTON.

## SUPPLEMENTARY NOTE B.

### Co-operation in India. By S. H. Fremantle, Esq., I.C.S., Collector, Allahabad.

1. Three-and-a-half years have elapsed since I read before this Association a paper on "The Progress of Co-operative Credit Societies in Northern India and Burma," and the object of my present paper is to show what further progress has been made in the interval and to discuss recent developments of the co-operative system. But before speaking about what co-operation has already effected for India and what results may be expected in the immediate future, I wish to say something about co-operation in the wider sense and to indicate from European experience what vast potentialities it has for raising not only the economic standard of the people, but their social and moral standards as well. All are aware of the extraordinary economic results which have followed the organization of co-operation in some parts of the continent of Europe. Germany, for instances, has in its agricultural districts some 24,000 societies, one for every 2,543 inhabitants. In that country and in parts of France and Northern Germany rural economy is completely organized on co-operative lines. What this means is that the peasantry combine for all purposes connected with agriculture—namely, for the provision of credit, for the supply of fodder, seeds, manure, and other agricultural necessaries, for the joint ownership of machinery, for the sale of produce and live stock, for the working up of their raw material in creameries, sugar-beet factories, distilleries, bacon-curing establishments, &c., for the mutual insurance of cattle from accident and disease, and of crops from hail, for the improvement of land by drainage and irrigation, for the maintenance of stallions, bulls and rams for breeding purposes, and for the supply of water, and even electricity and telephones. There are also cow-testing societies which employ men to go round the farms and record the milk given by individual cows, and others, known as control societies, whose employees keep the farmers' records of the money returns from each kind of crop and advise as to rotation and seeds.

2. Thus rural economy is organized on a co-operative basis, and not only rural economy, but rural social life also. For the co-operative societies from their profits and resources support many kinds of social institutions, such as village halls and libraries, village nurses, and sick and provident funds. In Sir H. Plunkett's words, co-operation means for the peasant, better farming, better business, better living; better farming, because more capital will be applied to the land, better seeds, manures, implements and live stock will be obtained, and expert advice will be available; better business, because the small man by combining with others gains all the advantages of a wholesale dealer; better living, because economic prosperity and combination for business purposes bring in their train a well-ordered social and intellectual life. The people learn to think for themselves. Education and sanitation are encouraged, and a stimulus is given to the reform of social customs. The society induces the growth of a corporate life, and the mere fact that in any village a committee exists representative of all classes of the agricultural community is of great potential value to any Government and to any country.

3. Now, to turn to India, it is obvious that these manifold activities imply a wide and far-reaching organization. First, there is the small credit society in the village, easy and simple to manage; then other more complex societies, such as those for mutual insurance and purchase of agricultural necessaries, which still, however, work in the area of the village. Then there is the federation into unions and central banks and central societies for purchase and sale. And, lastly, there are the wholesale operations of these central institutions by which they bring the co-operative movement into

touch with the outside world. The control of an organization of this nature is obviously not an easy matter, and the question arises whether there is any prospect that sufficient managing ability will be available in agricultural districts in India; peasants of independent and reliable character to manage their own business in the villages; men of public spirit and education at local centres to supervise the village societies and manage the affairs of a federation; and men of large business capacity and political insight at headquarters to direct the movement as a whole and to control its relations with the outside world. Now the village is the unit of rural society. It is generally well defined, and to a considerable extent self-contained. The village headman already has duties and responsibilities, and undertakes unpaid work for his community in consideration of the prestige and privileges which this position affords him, and we find very few villages where, if the advantages of the system of Co-operative Credit are properly explained beforehand, and sufficient trouble is taken to find the best men, a reliable and influential *panchayet* cannot be obtained. These leading men may not all be educated from a narrow literary point of view, but it cannot be said that their minds are uncultivated. They have a deep knowledge of things agricultural, they are used to the conduct of business and to the exercise of authority in their own villages, and they know how to comfort themselves with independence, dignity, and self-control. As Sir F. Nicholson says, "they compare well in these respects with the peasantry of any European country." And experience has already shown us that even where education has made the least advance, suitable men after proper instruction and under proper supervision can be found to manage the affairs of their own village. But village societies need training in business methods, and their *panchayets* frequently require outside support and sometimes outside control. And they must, to get the full benefit of co-operation, combine into unions, federations and other central institutions.

4. It is in this wider sphere that our chief difficulties arise. Cultivators are, as I have said, keenly interested in the affairs of their own village, and are generally competent to manage them, but they are not qualified to control institutions operating over a large area. Here we must have recourse to another section of the people. Can we then in our small towns and country districts find men of education, leisure, and public spirit to supervise the village societies, and administer the larger institutions? Here salaried officials are no doubt necessary to inspect on the spot, and to train the village societies, and for the current work of administration, but supervision and control by men of the class to which I have referred are needed, and unless such men can be found there is little chance of that complete organization of rural life and industry on a co-operative basis which is the ideal I have set before you. A number of such men have, indeed, put their hands to the work. Sometimes they are busy professional men who devote their scanty leisure to the common good, sometimes retired officials who are accustomed to administration, and are, therefore, particularly efficient as helpers; sometimes, too, enlightened landowners, whose local influence and practical acquaintance with agriculture are of great assistance to the cause. All honour to them! But, in some districts where central institutions have been formed, very little interest is shown by the landholding and professional classes, and the only real control exercised over the salaried officials is that of the registrar and his staff. The drawbacks of this system are evident. First, the movement will become too official and too stereotyped; and, secondly, its development will be hampered because of the inability of the registrar to supervise efficiently more than a certain number of societies. For its healthy growth the co-operation of men of all classes is required, and especially that of the educated community, who by this means can show themselves to be real leaders of the people. As Smiles says in his "Self-Help": "The highest patriotism and philanthropy consist not so much in altering laws and modifying institutions as in helping and stimulating men to devote and improve themselves by their own free and independent individual action." Now this is an excellent description of the aims of co-operation, and one can imagine what an enthusiastic supporter of the movement Smiles would have been, had it been known in his day. For self-

help is the very key-note of co-operation, and, as Mr. Roosevelt said: "The only true way of helping a man is to help him to help himself."

5. I now turn to the second portion of my subject, and wish to tell you something of our co-operative record up to date, and of its future prospects.

6. As you are no doubt aware, for each province of British India, except the North West Frontier and Baluchistan, a registrar of Co-operative Credit Societies has been appointed, and, except in Ajmere-Merwara, he is a full-time officer. He is generally a covenanted civilian, and has an assistant belonging to the provincial service. He has also a staff of inspectors or auditors for organisation, inspection, and audit. The combined statements published by the Government of India show that at the end of the year 1910-11 there were in existence 5,432 societies, of which 4,957 were rural societies. There were 304,101 members, and the working capital was 206½ lakhs. Considering that the movement is still only eight years old, these are very remarkable figures. Taking the average number of members of a household at five, they indicate that 1,500,000 of the population of India are assisted by one or other form of co-operation. And the movement is growing fast, for the provincial reports of the present year, some of which I have had the advantage of seeing, indicate that the increase for the year will be nearly 50 per cent. And this rate of increase is likely to be maintained for some time, since the institution of new centres of organisation and control is rapidly spreading the knowledge of the system over wider and wider areas, and facilitating the formation of new co-operative societies.

7. With a movement already so large and so rapidly growing and fraught with such far-reaching possibilities for the economic, moral, and social elevation of agricultural India, it is obviously of the first importance that development should be on the soundest lines. Co-operation has become a science, and, besides the experience which we have acquired in India, we have that of many European countries in different stages of development to guide us. There are some principles inherent in all true co-operative systems which are of universal application, and cannot, in spite of well-known differences in economic conditions, be safely ignored. I wish, therefore, to call attention to those principles, and to the dangers to which neglect of them is likely to lead.

8. The first principle is that the movement should be self-supporting and self-reliant, and should not depend unduly on Government or any central institution not built up by itself, whether subsidised by Government or not. The danger of officialism I have already mentioned. There is also, of course, the opposite danger. *In India's present stage of development the movement cannot progress without official assistance and encouragement, and some measure of official control. These, however, should be provided by the registrars and their trained staff*, and it is only in exceptional cases and in the more backward parts of the country that local officials, busy men with no special training for the work, should be encouraged to take active steps in the organisation and inspection of societies, though at the head of non-official institutions for controlling and financing the societies the assistance of district officers is most useful. Hence registrars, though themselves officials, make every effort to guide and control the movement through the agency of non-officials, whose interests lie in the locality where the work is being carried on, and they ask for as little financial assistance as possible from Government. The proportion of funds provided by the State is only 4 per cent. of the whole, and shows a decided tendency to decrease. In fact, it has been found in India, as elsewhere, that a movement sound in itself, has no difficulty in attracting capital, and, except in two provinces, Government loans have practically stopped. But Bombay and Eastern Bengal still rely greatly on State aid, and this fact, indicating as it does that the societies have not as yet succeeded in gaining the confidence of investors, points to the necessity for a cautious policy of advance. In Bombay, too, a large capitalist bank has been formed by the assistance of State guarantees to loan money to the societies. The loans are made on the advice of the registrar, and already amount to over 20 lakhs of rupees. It would have been more in accordance with co-operative principles if central banks had been built up

by the local co-operative societies themselves, with the assistance of local capitalists, as has been done in other provinces. Such central banks would have first-hand knowlege of the requirements of local societies, and could arrange to supervise them as well as finance them. The facilities given in obtaining funds from outside the movement tend to obscure the need for combination and federation among the societies themselves, and so interfere with the complete development of a co-operative organisation. Such facilities also serve to obviate the necessity which would otherwise exist of attracting local capital to the movement. But the habit of investing savings needs to be encouraged, and the sense of responsibility which the engagement of local capital entails, is the best guarantee for sound business management.

9. A second principle is that a real demand should exist for a society before it is actually formed. By the existence of a real demand I mean that the people in whose interests a society is organised appreciate the advantages it will bring and the conditions which alone will make it a success. These conditions are punctuality of repayment, an understanding, faithfully carried out, to declare existing debts and to borrow in future from no outside source, and the employment of loans solely for the purpose for which they are granted. If these conditions are impressed on the people beforehand, so that they are fully understood and accepted, success will be practically certain. On the other hand, experience shows that, if loans have once been given out without prior instruction in and acceptance of these conditions, it is almost impossible to get them attended to later, and failure is the result. It follows that every one in sympathy with the movement is not qualified to organise a society. The organiser should be a man acquainted with the principles and practice of co-operative banking, and with the practical difficulties which arise in organisation. The rate of advance thus depends on the available supply of trained organisers, and to meet this demand a large number of non-officials sent by central banks and co-operative unions, by courts of wards, and by zemindars, anxious for the welfare of their tenantry, have been trained by the registrars.

10. A third principle which I should like to mention is this, that in a co-operative institution, capital should be the servant and not the master. It should be entitled only to a fixed return, not to extra claims of any kind, whether they are called dividends or profits of bonuses. All extra profits should go to the users of the society. Thus, in a credit society, after due provision has been made for reserve, profits should go to reduction of interest to the borrowers. In a distributive society, such as a co-operative store, they should go to the customers; and in a productive society, such as a creamery, to the suppliers of the raw material. In each case capital is entitled only to a fixed return, which will, of course, vary in different countries according to the rates of interest current therein. Experience shows that speculative businesses are unsuitable for organisation on co-operative lines. All such should be left to private enterprise. An ample field will still remain for co-operative institutions, and, as the capital engaged in them incurs no risk, it is obviously entitled only to a fair and fixed return. On these terms, as experience again shows, funds are always available from banks and private depositors who are in search of safe investments. There is no need to attract capital which looks for large returns, and we want to hear no more of dividends of 15, 18 and even 20 per cent., such as have been recently paid in Eastern Bengal. This means the introduction of a dividend-hunting element, and leads to a conflict of interests between the shareholders and the users of a society, whereas it is the latter's interests alone which should receive consideration.

11. I have not left myself very much time in which to discuss recent developments of the co-operative movement. It has not yet reached its teens, and the efforts of the registrars are, in a great part, directed to the co-operative education of the institutions under their charge. For it is very important that the true aims and ideals of co-operation should receive early chance of development on the soundest possible lines.

12. On the first introduction of co operation to every country difficulties have arisen in connection with finance, and India has been no exception to the rule. The question has been settled in Bombay by the establishment of Sir V. Thackersey's bank to which I have already alluded. Madras has also a large capitalist bank, formed, however, without any guarantee from Government. In the Central Provinces the difficulty has been solved by the organisation, during the present year, of a Provincial Co-operative Bank. The required capital, 5 lakhs, was at once subscribed by the leading gentlemen of the province, and the Allahabad Bank has agreed to provide further funds at 6 per cent. on condition that the provincial bank does not take deposits. This provincial bank will lend money to the central banks out in the district at 7 per cent., and will also entertain an inspecting agency to control the latter. It is not quite clear whether the provincial bank is organised on co-operative lines, so that the central banks financed by it are encouraged to become shareholders, and that the interests of borrowing banks are safeguarded against those of capitalists. If so, there can be little fault to find with an organisation consisting of a provincial bank which finances and controls the central banks, and of central banks which, in their turn, finance and control the rural societies. The only danger to be guarded against is that the central banks will find it so easy to get money from the provincial bank that they will make no great effort to attract deposits, and so make use of local savings for local development.

13. In the Punjab, United Provinces and Bengal no attempt has yet been made to form a Provincial Central Bank. In the Punjab, indeed, the yeoman farmers, from which class most of the members are drawn, are so prosperous that they themselves supply two-thirds of the capital used by the societies, and the central banks and unions which provide the remainder have no difficulty in raising what they require from local capitalists or from the joint-stock banks. In the United Provinces the district banks, which provide the largest proportion of the funds of rural societies, are supplied chiefly by the deposits of local capitalists, but they nearly all have cash credit accounts with one or other of the joint-stock banks. In Western Bengal the capital is found chiefly by large zemindars and other capitalists, and is furnished to the rural societies either direct or through unions formed for this purpose. In Eastern Bengal urban societies supply a large portion of the required funds.

14. Rural societies in Bengal and Behar, in Bombay and the Central Provinces, are usually organised on pure Raiffeisen lines. In the Punjab, United Provinces and Burma a new type of society has sprung up which, though it retains the main principles of the Raiffeisen system—*i.e.*, the unlimited liability, the restriction of area, the issue of loans for a definite time and for a definite purpose, and the unpaid services of officers to their societies—yet requires each member to subscribe a share of a substantial amount. Each member must take up one share, and may take up more. The share is paid by half-yearly instalments spread over 10 or 12 years, and varies in amount from Rs. 10 to Rs. 200, according to the circumstances of the society. Thus on each share a six-monthly instalment has to be paid, varying from 8 annas to Rs. 10. Shares are not entitled to dividend till the 10 or 12 years have elapsed, and they are fully paid up. In the Punjab and Burma the share capital is withdrawable at the end of this period, but the profit, after provision has been made for reserve, is to be divided among the members in proportion to their shares, and credited to them as non-withdrawable shares on which dividend will be paid. In the United Provinces the shares are not withdrawable at all, and the dividend is by the bye-laws limited to 10 per cent. It is necessary in this type of society to keep the amount of the half-yearly payment down to such a sum as any person otherwise eligible can afford to pay, and if this is done the type seems to me to be better suited to Indian conditions than the pure Raiffeisen type, which has no or merely nominal shares. It certainly has the following advantages: First, the mere fact that members are required to make some small sacrifice in order to join the society is a

good guarantee that they have some appreciation of the advantages to be derived from it, and that they will therefore adhere to the conditions necessary to make it a success. Secondly, the possession by each member of a stake in the society proportionate to his status gives him a substantial and positive interest in it, in addition to the somewhat shadowy and negative interest which his unlimited liability for its debts implies. Thirdly, the practice of saving, enforced over a period of years, should go far to encourage the habit of investment, and teach the uses of capital.

15. Perhaps I may, finally, be allowed to call attention to the small societies of craftsmen, artisans, and small tradesmen which have been formed in considerable numbers in my own province, the United Provinces. They have, so far as I know, no prototype, though in some towns in Italy some societies are composed only of persons following the same trade or occupation. But those are on a larger scale. Our societies are small associations of men of the same or a similar trade, and the members are all residents of the same village or quarter of the town. Among those who have formed societies are weavers of cotton, silk and wool, fruit and vegetable sellers, carpenters, boatmen, ekka-drivers, and many others. These societies have unlimited liability, and are generally of the same type as the agricultural societies mentioned above, though in non-seasonal trades the share is paid up by monthly instead of six-monthly instalments. In many weavers' societies the amount of the instalment is only one anna monthly, and the value of a share Rs. 9—an amount which it will take 12 years to pay up in full. The conditions of hand-loom weaving have for years past received much attention, and it is now generally held that there are at least some branches of the industry which—if they can escape from the economic bondage under which they suffer from the buyers of finished goods and the suppliers of raw material, and if they can be induced to adopt improved methods, such as the use of the fly-shuttle and of special appliances for setting up the work—have every chance of competing successfully with power looms. It is, therefore, the object of the co-operative organisation not only to provide the required capital, and to organize the supply of yarn and the marketing of finished goods, but also to encourage the adoption of the improved methods mentioned above. Already considerable success has been attained. We have found the weavers somewhat slow to make the first move, but ready enough to follow the example of their neighbours, and they are remarkably punctual in meeting their engagements. In one small town alone (Tanda, in the Fyzabad District) there are 20 societies, with 541 weaver members, and a central bank for finance and organisation, while another small town (Sandila, in the Hardoi District) has combined with its weavers' credit society a yarn store, which sold last year yarn to the value of Rs. 46,000, and paid a bonus of two pies in the rupee on purchases.

16. Such are some of the developments of which I wish to speak, and they may, I think, be regarded as symbolical of the great future which lies before the movement. India is indeed for co-operation a land of promise. I saw recently in the *Irish Homestead*, a weekly paper full of illuminating ideas and inspiring ideals, a striking analogy between irrigation and co-operation, those two forces on which the prosperity of rural India so largely depends, and I will close my paper by quoting from it:—

> "Co-operation may be called industrial irrigation, the opening of channels, tunnels, pipes and viaducts leading from the rich centres of capital and industry to the economic wastes and deserts. If we examine any modern country we will find in some places a superabundance of capital, and elsewhere whole dreary districts where industry languishes because of the lack of the fertilising influence of cheap money. The banks are overloaded with deposits on which they give a very small return to the depositor. The cities are filled with factories which might be more productive if the countryside could find a way of utilising the labours of mechanical engineers and inventors. The country is thirsty for lack of gold. It is backward because the city is

the repository of science of knowledge as well as of wealth. On the one side we have a superfluity of capital, science and mechanical skill. On the other side, an economic desert where, because these things are sparse, there is little life or progress. Agricultural organisation does for the economic desert what the adventurous engineer does for the dry desert in America or Africa. It creates the viaducts along which flow capital, science and mechanical skill to the country districts."

S. H. FREMANTLE.

* [N.B.—This paper was read before a meeting of the East Indian Association, London.]

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## APPENDIX XVII.

STATEMENT of EVIDENCE submitted by MESSRS. TOOMEY AND FRASER, representatives of the Exchange Banks.

1. With reference to the invitation we have received to give evidence before the Royal Commission on Indian Finance and Currency, we now beg to put the following short statement before you as to the nature of the evidence we shall be prepared to give.

2. The location and management of the general balances of the Government of India.—We see no objection to the methods hitherto adopted by the Government of India.

3. The sale in London of Council Bills and transfers.—We would deprecate any change being made in the sale of Council Bills. The present system is admirably adapted to the requirements of trade, the amount put up weekly for tender being well regulated by probable requirements, while additional amounts can be obtained at a small premium. We consider that the sale of Council Bills is well handled, the system adopted being the outcome of many years' experience.

4. The measures taken with regard to the location, disposition, and employment of the Gold Standard and Paper Currency Reserves.—As regards the Gold Standard Reserve we consider that the whole amount should be kept in this country in gold and gold securities, and that the latter as far as may be practicable should consist of short term securities. We further consider that a much larger proportion of the reserve should be retained in actual gold than has been the custom in the past. All profits on the coinage of rupees should be credited to the reserve, as we are strongly of opinion that the time has not yet arrived when it is safe to place a limit on the amount of the reserve. We do not approve of any portion of the reserve being held in silver.

5. As regards the Paper Currency Reserves, we hold that a proportion of these should be kept in this country in gold, and so could be made immediately available for purchases of silver, or released in case of need against the deposit of rupees in India. When gold is available in India, the Currency Note Department should, in normal times, be prepared to readily pay out sovereigns against notes and/or rupees.

6. We are given to understand that among other points which may come up for discussion are :—

(1) The enlargement of the powers of the Presidency Banks.

(2) The establishment of a State Bank for India.

(3) A mint for the free coinage of gold.

7. The question of the enlargement of the powers of the Presidency Banks so as to permit them to deal in sterling exchange is one which has been brought forward from time to time during the last 50 years, and has been steadily vetoed by the Government of India and successive Secretaries of State. The last time that this question was raised was in 1904 when it was proposed :—

(1) That the Presidency Banks should be allowed, when the bank rate in India is 6 per cent. or higher, to borrow in London for the purpose of remitting funds to India.

(2) That the banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the money borrowed to or from India.

The Government of India, with the approval of the Secretary of State, declined to grant the powers sought by the Presidency Banks, and the reasons for this decision were fully explained by the then Finance Minister, in his speech reported in the "Gazette of India" of 16th February 1907, of which we attach a copy.

8. The Exchange Banks at that time felt it incumbent on them to strongly oppose the proposals of the Presidency Banks, and we should do so again on the same grounds, *i.e.*, that while we do not deprecate ordinary competition by competitors on the same level as ourselves, we strongly object to State-aided competition.

9. The Presidency Banks enjoy the prestige of being the Government bankers with immense sums of public money free of charge, whilst we are handicapped by having to pay interest on the whole of our deposits.

10. The Exchange Banks have financed the external trade of India for over 50 years without any charge of inefficiency or unreasonable charges, and with the large resources at their command they are fully competent to deal with all the exchange business of the country.

11. We maintain that the legitimate function of the Presidency Banks is to finance the internal trade of the country for which they enjoy special privileges in having large amounts of money without charge. If, however, these banks require further funds for their business it is open to them to raise additional capital in the same way as many of the Exchange Banks have done.

12. It is contended in some quarters that the Government of India should lend some of its surplus balances for the benefit of trade during the busy seasons, and we see no reason why this should not be done in the same way as the Secretary of State lends money in this city, on first-class securities. Our view is that money should be lent to the Presidency Banks for short periods on Government paper, Port Trust Bonds, and the like—the money being lent at somewhat less than the ruling bank rate.

13. We attach the same objections as the foregoing to the establishment of a State Bank.

14. Banking in India is already well represented in all its branches by the Presidency Banks, Exchange Banks, and numerous local banks. No State Bank could, in our opinion, cater for the requirements of the many millions of cultivators who are at present dependent for finance on money-lenders. Their needs could be best supplied by encouraging and developing the system of co-operative credit which under the sympathetic support of the Government has made great progress during the last few years.

15. The Presidency Banks fulfil the functions of a State Bank in their respective spheres, they have their capital and resources available for the benefit of their own particular province, and to absorb these into a central institution would, in our view, militate against efficiency. The Presidency

Banks as they exist are in reality three "State Banks," and, with their head offices in Calcutta, Bombay, and Madras, are better equipped for studying the wants of their respective provinces than one central bank could possibly be, and we are unable to see how such a bank could foster the development of trade as well as it is being done by the existing machinery. Further, a State bank with the control of the Government money, the paper currency, and access to the London market would virtally mean the establishment, so far as exchange is concerned, of a banking monopoly which we feel is not desirable or advisable in the best interests of India and its trade.

16. We consider that the existing Currency Department with the assistance of hundreds of Government treasuries and sub-treasuries penetrating into remote districts, to which it would not pay a bank to go, is much better fitted to manage and develop the Paper Currency than a State bank would be. The remarkable growth of the Currency Note issue, particularly in recent years, testifies in some measure to the efficiency of the existing system, and it is scarcely likely that a State bank could foster the extension of the note issue so well as these Government Treasuries.

17. In our opinion existing conditions in India do not call for the establishment of a mint for the free coinage of gold, seeing that the country obtains all the sovereigns it requires free of minting charges. If, however, it should at any future date be deemed advisable to open such a mint, we advocate the coinage thereat of the sovereign.

(Signed) J. A. TOOMEY,
T. FRASER.

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## SUPPLEMENTARY NOTE TO APPENDIX XVII.

Extract from "The Gazette of India," dated February 16th 1907.

PRESIDENCY BANKS (AMENDMENT) BILL.

The Honourable Mr. E. N. Baker, C.S.I., moved that the report of the Select Committee on the Bill further to amend the Presidency Banks Act, 1876, be taken into consideration. He said: "I will take the opportunity "of offering some observations on one point which is not referred to in the "Report—I mean the question of allowing the Presidency Banks to borrow "in London."

"Disappointment has been expressed by the Chambers of Commerce that this proposal, which had been under consideration for some time, should have been abandoned, and some of them have asked for a statement of the reasons which have led to this result. The request is reasonable, and I shall endeavour to comply with it.

"At the outset I may observe that the question is one on which there is a good deal to be said on both sides. The financial advisers of the Government of India at different times have held different views regarding it, and when we find such high authorities as Mr. Barclay Chapman and Sir John Strachey holding one opinion, while Sir James Westland held a contrary one, and Sir Clinton Dawkins only assented to the proposal on conditions which were quite unacceptable to the banks, a cautious person would probably be disposed to regard it with prudent reserve. But there is one authority which, since the proposal was first originated over forty years ago, has never wavered in his views on the subject, and that is the Secretary of State. Now I would remind the Council that the Secretary of State has access to the highest expert banking advice in London, *i.e.*, probably in the world, and it is a well known fact that, acting on that advice, each successive Secretary of State to whom the proposal has been submitted has refused to entertain it. This fact, I think, possesses no small significance.

"The reasons for not adopting the proposal are these. Firstly it is not clear that to give the Presidency Banks access to London would really increase the net aggregate facilities for importing capital into India. The Exchange Banks with their large capital and resources collected from many parts of the world, and free from the special restrictions which necessarily attach to the Presidency Banks, possess ample facilities for supplying all the capital that Indian trade requires. To admit the Presidency Banks into this class of business would add a new channel of import, but would in no way increase the supply of capital offering. If it is the case that the total funds imported to India in the busy season would not be increased by the means in question, it is preferable in the public interest that the business should be left to the Exchange Banks, rather than that the Presidency Banks should be enabled to embark upon it. This I shall now endeavour to show.

"I am not now referring to the risks which were formerly held to attach to engaging in foreign exchange business. That objection was a powerful one in former days, but with a stable exchange it has lost almost all its force. The objections to which I allude are of a different character.

"It is of course well understood that the Presidency Banks could not legitimately be allowed to receive deposits or engage in ordinary banking business in London. If, therefore, they were allowed access to London it would mean merely that they would be permitted to borrow in that market (subject to certain restrictions), to remit the funds thus borrowed to India, and, after the term of the loan had expired, to return the money to London for repayment. In other words, all sums thus brought out to India by the Presidency Banks would have to be remitted back to London, after a comparatively short interval. Now with the Exchange Banks that is not wholly the case. Part of what they import, no doubt, goes back again; but part of it at least remains in this country, even during the slack season. This has been shown, among other things, by the comparatively small reflux of gold which has taken place each year at the end of the busy season. The capital, which thus remains in India, and is not re-exported, is available for investment in our rupee loans, which are always floated in the summer months, and improves the rate which we obtain for them.

"If, therefore, we allow the Presidency Banks to attract to themselves part of the business of importing capital which is now done by the Exchange Banks, one result would be that the issue price of Government loans would be likely to suffer.

"Another result of analogous character would be that the average rate obtained for the Secretary of State's Council drawings would probably be lowered. The necessity for returning the money to London when the busy season was over would depress exchange during the slack months. And this would not be counterbalanced by a rise during the busy months, for during the latter exchange is always high, and could not be raised appreciably higher without touching specie point. The net result for the whole twelve months would thus be a fall.

"A third objection is that a Presidency Bank which had taken a sterling loan for a fixed term might be forced to denude itself of resources in a time of stringency in order to repay it when due. This danger may be regarded as theoretical rather than practical; but it is a contingency which cannot be wholly overlooked in a general review of the position.

"Lastly we have to consider the effect on the Exchange Banks themselves of permitting the Presidency Banks to embark upon even a limited competition with them in financing the foreign trade of the country. The Exchange Banks play a most important part in providing for the requirements of this trade, and hitherto they have, I believe, discharged their functions to the general satisfaction of the commercial public. They have, of course, no claim to be protected against competition in their business, but the competition must be on equal terms and they might fairly complain if they were required to enter the lists against a State-aided competitor. It has sometimes been affirmed that the use of the Government balances free of interest, and the general prestige which attaches to the position of State bankers are of comparatively little value, and are counterbalanced by the restrictions which are imposed by the law and the contracts

made thereunder. I do not think that rivals in the same field can be expected to regard the matter in the same light. The Government balances are usually about 3 crores of rupees, say five-sixths of the aggregate paid in capital of the three Presidency Banks taken together. It cannot reasonably be disputed that the free use of this very large sum must be of the greatest value to the banks, and I may mention that occasions have occurred, not so very long ago, when the Government balances at one or other of the banks actually exceeded its whole cash resources. If the Exchange Banks are apprehensive of having to encounter such powerfully aided competitors, one cannot regard their apprehension as altogether unreasonable.

"These, my Lord, are the reasons which have led to the decision not to pursue the proposal to give the Presidency Banks power to borrow in London. We all sympathise with the desire of the Chambers of Commerce to afford facilities for the easy provision of cheap capital; but it is open to doubt whether this particular measure would really increase existing facilities, while it is likely to be attended by drawbacks and disadvantages of its own.

"I do not think I need offer any remarks on any other provisions of the Bill."

The motion was put and agreed to.

The Honourable Mr. Baker moved that the Bill as amended be passed.

The motion was put and agreed to.

The Council adjourned to Friday the 1st March 1907.

J. M. MACPHERSON,
Secretary to the Government of India,
Legislative Department.

Calcutta,
The 15th February 1907.

# APPENDIX XVIII.

## STATEMENT HANDED IN BY MR. TOOMEY (with reference to Question 2769).

### NATIONAL BANK OF INDIA, LIMITED.

*Receipts.*

| Week ending | Percentage in | | | Average. | | | Percentage relative to Total Receipts. | | | Branch. |
|---|---|---|---|---|---|---|---|---|---|---|
| | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. | |
| 10 May 1913 | 89½ | 10¼ | ¼ | | | | | | | Calcutta |
| 17 „ „ | 91 | 8¾ | ¼ | | | | | | | |
| 24 „ „ | 87¾ | 12 | ¼ | | | | | | | |
| 31 „ „ | 91 | 8¾ | ¼ | 90 | 9¾ | ¼ | 22·47 | 2·41 | ·06 | |
| 10 „ „ | 98¾ | ¼ | 1 | | | | | | | Bombay |
| 17 „ „ | 97¾ | ½ | 1¾ | | | | | | | |
| 24 „ „ | 97⅝ | 9/16 | 1 9/16 | | | | | | | |
| 31 „ „ | 98⅛ | ⅛ | 1½ | 98⅛ | 7/16 | 1 7/16 | 38·10 | ·17 | ·55 | |
| 10 „ „ | 97¼ | 2½ | ¼ | | | | | | | Madras* |
| 17 „ „ | 95 | 4½ | ½ | | | | | | | |
| 24 „ „ | 95¼ | 4¼ | ½ | | | | | | | |
| 31 „ „ | 95¾ | 4 | ¼ | 95 13/16 | 3 13/16 | ⅛ | 11·07 | ·43 | ·04 | |
| 10 „ „ | 98 | 1 | 1 | | | | | | | Karachi |
| 17 „ „ | 98¼ | ¾ | 1 | | | | | | | |
| 24 „ „ | 97½ | 1½ | 1 | | | | | | | |
| 31 „ „ | 96¼ | 2½ | 1¼ | 97½ | 1 7/16 | 1 3/16 | 5·79 | ·08 | ·06 | |
| 10 „ „ | 31 | 27 | 42 | | | | | | | Delhi |
| 17 „ „ | 25 | 39 | 36 | | | | | | | |
| 24 „ „ | 27 | 33 | 40 | | | | | | | |
| 31 „ „ | 25 | 46 | 29 | 27 | 36½ | 36¾ | ·50 | ·67 | ·68 | |
| 10 „ „ | 86 | 2½ | 11½ | | | | | | | Lahore |
| 17 „ „ | 87¾ | 8⅝ | 3½ | | | | | | | |
| 24 „ „ | 96 | 1¼ | 2¾ | | | | | | | |
| 31 „ „ | 71½ | 19¾ | 8¾ | 85 5/16 | 8 1/16 | 6⅝ | 1·58 | ·15 | ·12 | |
| | — | — | — | 493¾ | 59¾ | 46½ | 79·51 | 3·91 | 1·51 | |

*Disbursements.*

| Percentage in | | | Average. | | | Percentage relative to Total Disbursements. | | |
|---|---|---|---|---|---|---|---|---|
| Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. |
| 97 | 2¾ | ¼ | | | | | | |
| 96 | 3¾ | ¼ | | | | | | |
| 96½ | 3¼ | ¼ | | | | | | |
| 97 | 2¾ | ¼ | 96¾ | 3 | ¼ | 23·32 | ·71 | ·06 |
| 99 7/16 | 1/16 | ½ | | | | | | |
| 99⅝ | 1/16 | 3/16 | | | | | | |
| 99½ | 1/16 | 3/16 | | | | | | |
| 99½ | ⅛ | ⅜ | 99½ | ⅛ | ⅜ | 38·72 | ·05 | ·14 |
| 97½ | 2 | ½ | | | | | | |
| 96 | 3 | 1 | | | | | | |
| 98½ | 1 | ½ | | | | | | |
| 98 | 1¼ | ¾ | 97½ | 1 13/16 | 11/16 | 11·72 | ·24 | ·08 |
| 98¼ | 1 | ¾ | | | | | | |
| 98½ | 1 | ½ | | | | | | |
| 98¼ | 1¼ | ½ | | | | | | |
| 97¾ | 1½ | ¼ | 98 3/16 | 1 3/16 | ⅝ | 6·30 | ·06 | ·03 |
| 8 | 45 | 47 | | | | | | |
| 6 | 62 | 32 | | | | | | |
| 22 | 45 | 33 | | | | | | |
| 9 | 43 | 48 | 11¼ | 48¾ | 40 | ·12 | ·67 | ·55 |
| 90 | ½ | 9½ | | | | | | |
| 84 | 12¼ | 3¾ | | | | | | |
| 97¾ | ¼ | 1 | | | | | | |
| 82¾ | 9 | 8¼ | 88⅝ | 5½ | 5⅞ | 2·10 | ·11 | ·11 |
| — | — | — | 491 13/16 | 60⅜ | 47 3/16 | 82·28 | 1·84 | ·97 |

* 12th May a holiday.

NATIONAL BANK OF INDIA, LIMITED—*continued.*

*Receipts.*

| Week ending. | Percentage in | | | Average. | | | Percentage relative to Total Receipts. | | |
|---|---|---|---|---|---|---|---|---|---|
| | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. |
| Forward - - | - - | - - | - - | 493¾ | 59¾ | 46½ | 79·51 | 3·91 | 1·51 |
| 10 May 1913 - | 33½ | 34 | 32½ | | | | | | |
| 17 „ „ - | 24 | 36 | 40 | | | | | | |
| 24 „ „ - | 36 | 38 | 26 | | | | | | |
| 31 „ „ - | 23 | 45 | 32 | 29⅛ | 38¼ | 32⅝ | ·86 | 1·12 | ·94 |
| 14 „ „ - | 53 | 30 | 17 | | | | | | |
| 21 „ „ - | 58 | 19 | 23 | | | | | | |
| 28 „ „ - | 66 | 19 | 15 | | | | | | |
| 4 June „ - | 70 | 15 | 15 | 61¾ | 20¾ | 17½ | 1·23 | ·40 | ·34 |
| 10 May „ - | 6 | 13 | 81 | | | | | | |
| 17 „ „ - | 4 | 9 | 87 | | | | | | |
| 24 „ „ - | 2 | 8 | 90 | | | | | | |
| 31 „ „ - | 3 | 20 | 77 | 4 | 13 | 83 | ·05 | ·16 | 1·02 |
| 10 „ „ - | 23 | 76 | 1 | | | | | | |
| 17 „ „ - | 84 | 15 | 1 | | | | | | |
| 24 „ „ - | 95 | 4 | 1 | | | | | | |
| 31 „ „ - | 92 | 7 | 1 | 73½ | 25½ | 1 | ·82 | ·26 | ·01 |
| 10 „ „ - | 7¾ | 92 | ¼ | | | | | | |
| 17 „ „ - | 7½ | 92½ | ¼ | | | | | | |
| 24 „ „ - | 5¼ | 94¾ | — | | | | | | |
| 31 „ „ - | 6¾ | 94 | ¼ | 6 9/16 | 93¼ | 3/16 | ·07 | 1·00 | — |
| 10 „ „ - | 94½ | 5¼ | ¼ | | | | | | |
| 17 „ „ - | 92⅝ | 7¼ | ⅛ | | | | | | |
| 24 „ „ - | 84½ | 14½ | 1 | | | | | | |
| 31 „ „ - | 93½ | 6¼ | ¼ | 91 9/32 | 8 5/16 | 13/32 | 5·08 | ·46 | ·02 |
| 17 „ „ - | 46 | 54 | — | | | | | | |
| 24 „ „ - | 57 | 43 | — | | | | | | |
| 31 „ „ - | 37 | 63 | — | 46⅔ | 53⅓ | — | ·59 | ·64 | — |
| | — | — | — | 806 5/96 | 312 7/48 | 181 7/32 | 88·21 | 7·95 | 3·84 |
| | | | | | | | 100 per cent. | | |

*Disbursements.*

| Branch. | Percentage in | | | Average. | | | Percentage relative to Total Disbursements. | | |
|---|---|---|---|---|---|---|---|---|---|
| | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. |
| - - - | - - | - - | - - | 491 13/16 | 60⅜ | 47 13/16 | 82·28 | 1·84 | ·97 |
| Cawnpore - | 36 | 38 | 26 | | | | | | |
| | 19 | 55 | 26 | | | | | | |
| | 25 | 48 | 27 | | | | | | |
| | 33 | 37 | 30 | 28¼ | 44½ | 27¼ | ·92 | 1·65 | ·91 |
| Amritsar - | 60 | 29 | 11 | | | | | | |
| | 66 | 27 | 7 | | | | | | |
| | 51 | 14 | 35 | | | | | | |
| | 73 | 13 | 14 | 62½ | 20¾ | 16¾ | 1·25 | ·39 | ·31 |
| Cochin - | 2 | 11 | 87 | | | | | | |
| | 1 | 6 | 93 | | | | | | |
| | 7 | 9 | 84 | | | | | | |
| | 2 | 21 | 77 | 3 | 12 | 85 | ·04 | ·16 | 1·30 |
| Tuticorin - | 27 | 72 | 1 | | | | | | |
| | 70 | 29 | 1 | | | | | | |
| | 73 | 26 | 1 | | | | | | |
| | 68 | 31 | 1 | 59½ | 39½ | 1 | ·90 | ·58 | ·01 |
| Chittagong - | 23¾ | 76 | ¼ | | | | | | |
| | 15¼ | 84¼ | ½ | | | | | | |
| | 8¼ | 91¼ | ½ | | | | | | |
| | 13¼ | 86 | ¼ | 15¼ | 84⅜ | ⅜ | ·09 | ·53 | — |
| Rangoon - | 98½ | 1 | ½ | | | | | | |
| | 96 | 3½ | ½ | | | | | | |
| | 97 | 2 | 1 | | | | | | |
| | 96½ | 2¼ | 1¼ | 97 | 2 3/16 | 1 3/16 | 4·64 | ·10 | ·04 |
| Mandalay - | 35 | 65 | — | | | | | | |
| | 65 | 35 | — | | | | | | |
| | 53 | 47 | — | 51 | 49 | — | ·58 | ·54 | — |
| | — | — | — | 808 5/16 | 312 11/16 | 179 | 90·67 | 5·79 | 3·54 |
| | | | | | | | 100 per cent. | | |

# APPENDIX XIX.

STATEMENT OF EVIDENCE SUBMITTED BY MR. HARRY MARSHALL ROSS, RETIRED CALCUTTA EXPORT MERCHANT, LATE HONORARY SECRETARY, CENTRAL COMMITTEE, INDIAN CURRENCY ASSOCIATION.

*Cash Balances.*

1. I am of opinion that the charge made against the Secretary of State in Council, of having withdrawn funds from India for the benefit of London, is based upon a confusion of currency with capital. That the fault, if any, lay in the original under-estimates of revenue and not in the release of the currency accumulated as the result of these under-estimates. That Budget estimates have, of late years, been unduly pessimistic. That, while the Secretary of State was right in releasing surpluses as speedily as possible by sales of bills and transfers thereagainst, the necessity for retention of excessive balances in London has not been proved, the explanation of the India Office [Cd. 6619] being more an excuse and an apology than an adequate defence; and that surpluses of revenue in India should, as in England, go to a sinking fund for the reduction of debt.

2. The collection of revenue used, in my time in India, to adversely affect the money market and was the cause of stringency during the busy season. Having left India over nine years ago, I am unable to say from actual experience where the same inconvenience is now felt, but should this be so, measures might, perhaps, be taken to make such collections available for use, not only as now by sales of bills and transfers, but also by way of loan to banks in India, on security, and in excess of the balances kept with the Presidency Banks.

*Gold Standard or Gold Currency.*

3. The remarkable expansion of trade which has taken place since the closure of the mints shows that the present system of a gold standard unsupported by a gold currency has worked, on the whole, satisfactorily and well. The total sea-borne trade of India, treasure included, was:—

| | Crores. |
|---|---|
| In 1874–75 - - - - | 102 |
| „ 1893–94 - - - - | 206 |
| „ 1912–13 - - - - | 485 |

The progress under closed mints has been vastly greater than under open mints. I have included treasure in these figures as it is, in India, so largely an article of merchandise and transactions in it require the employment of currency. The finance of the great trade shown above will have required the large additions to the currency which have excited alarm in some quarters. The progress which the country has made in wealth and the rise in prices which has been world-wide, will also have called for the employment of more currency, and I do not, therefore, think that the coinage of rupees since the closure of the mints has been particularly abnormal.

4. A notable witness to the benefits conferred on India by the present currency system is Mr. M. de P. Webb. In 1898 he described the poverty of the country as follows:—

> "The poverty of the great mass of the people renders a gold coin or gold in any form entirely beyond their means. . . . The native money-lenders would continue to receive 12 per cent. to 75 per cent. per annum for ordinary temporary accommodation, and they would not and could not use and demand that gold capital, the assumed advantages of which are one of the main foundations of the present proposals to abandon India's silver standard. . . . The gold standard, with or without a gold currency, could not, for the reasons already given, prove otherwise than injurious to the commerce of India, to the revenues of the Government and to the well-being of the great mass of the population." (Memorandum on the Indian Currency, p. 15.)

5. In 1912 Mr. Mr. Webb wrote: "Probably more individuals in India are in a position to use gold coins than in the United Kingdom!" ("Britain's Dilemma," p. 147).

6. I am as strongly opposed to forcing a gold currency upon India, which would seem to be the intention of some critics of the existing system, as I am to arbitrary interference with India's undoubted right to take gold if she is ready and willing to pay for it. I would respectfully submit that what is wanted is a code of clear regulations on the subjects now engaging the consideration of the Royal Commission, and measures for ensuring that those regulations shall be faithfully and unvaryingly adhered to. In the past we have never known where we really stood; what were the Government's intentions, nor what new surprise might not suddenly be sprung upon us. However, I think there is evidence to show that the Government was often as perplexed as the public. That, despite such hindrances, the Currency Scheme has, on the whole worked well, is ample justification for the general line of policy pursued since the mint closure.

*Sale of Council Bills.*

7. Objections have been raised to the present practice of liquidating the Government of India's home liabilities, and alternative methods have been suggested. I do not find that the alternatives proposed are themselves free from objection. These alternatives are—

(1) that the Indian Government should pay its home charges through the medium of certain Indian banks.

*Objection.*—Jealousy would be aroused by the selection of these banks, and by the allocation of their respective proportions of the business. Such selection and allocation would not improbably give rise to the suspicions and inuendoes which have attended the distribution, in loans, of the India Office balances. Again, if the remittances were made at the best rates obtainable, without regard to the amounts remitted through the respective banks, this alternative would merely be equivalent to transferring the auction from London to India.

(2) That Council Bill should be sold only at 1*s.* 4*d.*, or "not below the rate at which rupees can be procured from other sources."

*Objection.*—(*a*) The holding of Councils for a fixed minimum has not been a success in the past; (*b*) the minimum of the Secretary of State is the maximum of the market, so that, when the rate is approached, the Indian exporter would refuse to sell, *i.e.*, would withhold his bills, while the importer would hasten to buy wire in excess of his requirements. The former could not do worse, the latter could not do better, by waiting. These manœuvres would always tend to check the rise to the minimum, and although the Secretary of State might, ultimately, sell his bills he would always be the last to be served.

8. Whether Councils should be sold without limit, or only to the extent of the Budget requirements, should depend chiefly upon the nature of the trade demand for currency. If that demand is for rupees, while gold rests or accumulates in the Treasuries and Paper Currency Department, every reasonable facility should be afforded towards the satisfaction of the demand, since the Government is the ultimate and sole provider of silver currency. Sales of Council Bills and Transfers should not, however, in my opinion, be made against rupees in the Indian branch of the gold standard reserve, nor against new coinage, except at specie point.

*A Central or State Bank.*

9. The establishment of a Central or State Bank, would, I think, be very advantageous to the country, if it could be done under due restrictions, which would prevent (1) unfair competition with the Exchange banks, (2) unfair competition with solvent and well-managed Indian banks.

10. Such a bank would augment the banking resources of India; would be a support to, rather than a competitor of, the other banks; would take over the management and extend the use of the paper currency, and would

be of assistance to the Government in the matter of finance, rather than dependent on its balances. Further, it would have a prestige superior to the Presidency Banks which it absorbed; its enlarged capital resources would be of greater service to trade than the separate and smaller resources of the existing three banks, and, lastly, it would, by opening branches all over the country, provide that absolute security for the native depositor and trader which has not, in the past, been peculiarly conspicuous as a feature of Indian banking. If the native of India is to be weaned from his habit of hoarding it can only be by inspiring him with absolute confidence in banks. But the history of Indian banking is full of disasters, which must have seriously checked the growth of such confidence. Numerous banks are springing up, of which the capital and resources are often ridiculously inadequate, and it is to be feared that, in a period of financial stress, they might not illustrate the safety of banking.

11. When we come to look at the proposed bank as a "paying proposition" I find many grave difficulties in the way. The project, as originally submitted to the Fowler Committee by Mr. Alfred de Rothschild, presumed a capital of 14,000,000*l.* Could so large a capital be profitably employed in the manner suggested? To pay a dividend of 5 per cent. would require net earnings of 700,000*l.*

12. The three Presidency Banks have together a capital and reserves of about 7½ crores, or 5,000,000*l.*, and pay annual dividends totalling about 340,000*l.* It is difficult to see how this could be doubled, short of a heavy Government subsidy in the shape of the profits of the Paper Currency Department. Would a *heavy* subsidy be just?

13. Assuming that the capital of the State Bank be limited to 10,000,000*l.*, requiring 500,000*l.* net profit to pay 5 per cent., the absorption of the existing banks would, likewise, absorb nearly the whole of this capital. Shareholders in the existing banks would, presumably, have the option of exchanging their holdings into shares of the State Bank, or of being bought out. The market value of these holdings is now about 8½ millions sterling. With the usual "inducement" to amicable arrangement, probably 9,000,000*l.* would be required to bring about the amalgamation. The actual addition to working capital would be a solitary million sterling!

14. For many years to come the extension of the branches would probably be a losing business. Ultimately, they would pay, no doubt, as there is a vast unworked field for banking in India. This was the experience of the Bank of France, on the lines of which, it is urged, the Indian State Bank should work. The Bank of France, I believe, makes advances down to 250 francs, and discounts bills as small as 5 francs. It would require a large, experienced, and probably an expensive staff, to undertake such business on a large scale with safety, in India. The Bank of France has, I think, more than ten times the number of branches that are possessed by the three Presidency Banks.

Theoretically, the suggestion of a State Bank is an inviting one; practically, it is not yet apparent that it would be a "paying proposition."

*Measures taken to maintain the value of the Rupee.*

15. The measures taken by the Government of India and the Secretary of State in Council to maintain the exchange value of the rupee since the Report of the Fowler Committee may well be described as "supplementary to" rather than as "in pursuance of" the recommendations of that Committee. They have not been such as to inspire the public with confidence, as a rule. The mints have not been opened to the coinage of gold; the profit on coinage has not been kept in gold in India, but in securities in England; that profit was partly misappropriated for the construction of railways, and the gold reserve was not at once made available for foreign remittance when exchange fell below specie point. Lastly, after proclaiming the superiority of investments to gold for years, the Indian Government has admitted its error, or has weakly yielded to popular clamour, by arranging to hold a portion of the reserve in gold.

16. In the Budget statement of 1908, Mr. E. N. Baker, when defending his refusal to issue gold freely in the crisis of the previous year, made use of some remarkable words concerning the Gold Standard Reserve. He said: "The time and method of the employment of the Gold Standard Reserve "must be at the discretion of the Secretary of State, by whom the Reserve "is controlled." This is a most dangerous dictum. The Reserve should be held under regulations which would bring it into use automatically, and the public should know clearly what the regulations are. Its transfer to the care of a bank or to a special department created by legislative act, with strictly defined powers, would be greatly preferable to leaving its use dependent upon the will or whim of the Secretary of State for the time being or of his financial advisers.

17. The question of the mint is, I think, of much less importance. If the coinage of gold can be undertaken comparatively inexpensively, as the Government of India believed, there would be a certain prestige, and perhaps some convenience attaching to it. But there are objections to issuing a gold 10-rupee piece. There would be the usual Oriental prejudice and suspicion towards an innovation to be overcome in the first place; then it would compete with the 10-rupee note, and possibly check its circulation, and, finally, it might become popular as a new ornament, and disappear from circulation.

*Location, Disposition, and Employment of Gold Standard Reserve.*

18. The Gold Standard Reserve should preferably be kept in London. Its purpose is to maintain the exchange value of the rupee, not to supply gold for local use. While the reserve is kept out of India, the demands upon it are limited to those of remitters.

19. *Size of the Reserve.*—If we may judge by the extent of the drain upon it in 1907–08, the reserve is at present ample, taking into account the very large amount of gold in the Paper Currency Reserve. I attach more importance to the resolution and confidence with which the Currency Scheme is backed than to the mere size of the reserve. A comparatively small reserve, backed by a resolute policy, would give the public more confidence, and do more to prevent or allay panic than a larger reserve with a continuance of the irresolution and vacillation which have often been apparent in the past.

20. I do not think that the reserve should be unlimited. Its size should be fixed on some reasonable basis, not merely arbitrarily. Its fixture arbitrarily is merely guess-work. It might be fixed on a basis of experience, or of analogy and comparison. In the former case we could go upon the actual loss of gold in the crisis of 1907–08, say, from all sources, about 17,000,000*l.* (the actual export or transfer of gold out of India was only about 13,000,000*l.*) plus the Council Bill shortage. To this a reasonable margin for "apprehension" should be added. If we start on a basis of analogy and comparison, we may liken the liabilities of the Government under the scheme to those of a banker. It will be necessary to estimate those liabilities. The estimate of the rupees in circulation at the time of the Fowler inquiry was 120 crores. The Committee did not vouch for these figures, and I think that a serious attempt should be made to estimate the circulation, even roughly, now. An estimate of 200 crores would give about Rs. 7 per head of population. Now, the English joint stock banks keep about 23 per cent. of their liabilities in cash, at Bank of England, at call and at short notice. A like proportion gives 46 crores, or say about 30,000,000*l.*, as the size of the reserve against rupee liabilities. Of this 23 per cent., the English banks hold about half in actual cash or at the Bank of England, which is the same thing. This might serve as the basis for estimating what proportion of the reserve should be kept in actual gold. It must not be overlooked that the English banks' figures are "window-dressing" figures, and that the working percentages are probably smaller.

21. With a properly constituted Gold Standard Reserve, held in this country, there should be no need for holding any portion of the metallic reserve of the Paper Currency Department here also. The proper place for this reserve would appear to be India, since it exists to insure the convertibility of the notes, not the maintenance of the exchange value of the rupee.

22. *Use of the Gold Standard Reserve.*—Hitherto it has been the practice, when exchange threatened to fall below specie point, to offer fixed amounts of sterling drafts on London upon a given day each week. With a properly constituted reserve in London, it should be possible to sell wire transfers upon any day of the week up to a reasonable limit. Assume a grave financial crisis in London, with the Exchange Banks and merchants anxious to strengthen the resources of their head offices in England. Actual gold could be released in London, to the advantage of all concerned. In the Baring crisis the Bank of England rate was 6 per cent., and it was necessary to go "cap in hand" to a foreign country for gold. At that time the aggregate balances of the Presidency Banks were about 13 crores of rupees, and they were not able to lend much at 3 per cent. At that time, too, a large Calcutta mercantile firm, desirous of strengthening the funds at the disposal of its London house, was unable to remit by wire for that purpose except through a French bank. The English banks refused to sell wire, presumably from fear of weakening the resources of their head offices at that critical moment.

## APPENDIX XX.

### MEMORANDUM OF EVIDENCE SUBMITTED BY SIR ALEXANDER MCROBERT.

1. Has been in India 29 years—most of the time in Cawnpore, but for the past 23 years also closely connected with an important textile industry in Gurdaspur District, Punjab. Was President of the Upper India Chamber of Commerce for nine years and member of the Legislative Council of the United Provinces for eight years. A woollen manufacturer.

2. *Balances.*—It is hardly denied that the cash balances in London have been kept at an unnecessarily high level for the past three years. There would not have been much risk in keeping them down by paying off India bills and by refraining from raising loans until the surplus was absorbed. The other alternative would have been to directly reduce taxation, a course not advisable under the circumstances. Besides, by reducing the debt the sum to be raised by taxation would have been automatically reduced. Since the balances existed it was right to put them out at interest.

The balances in India might be lent to the banks in times of pressure when Government consider it would be safe to do so.

3. *Banking.*—Not in favour of the establishment of a Central Bank in India as the functions of such an institution are at present adequately performed by—

(*a*) The Government of India and the India Office;
(*b*) The Presidency Banks; and
(*c*) The Exchange Banks.

4. A State bank implies effective State control, so that by interposing a State bank the Government would not be relieved in actual practice of any of its existing responsibilities in connection with paper currency and exchange. Government could not withdraw from control of the currency.

5. Currency notes have at present the direct, unqualified backing of the Government of India. If issued by a State bank they would not for a long time at any rate inspire the confidence the existing "Sirkar's" issue enjoys, and the volume of the circulation would be checked.

6. Each of the three Presidency Banks has evolved a practice adapted to its own environment, and their absorption by a State bank would in a large measure involve the sacrifice of the advantages to trade which this specialisation secures.

7. The conditions of the money market are not uniform throughout India. The bank rate is rarely the same in Bengal, Bombay and Madras, being influenced by very different considerations in the three presidencies.

8. India is too large an area to be efficiently worked by one central State bank. A central bank would need to be in a central position such as Cawnpore, and that would satisfy neither Calcutta nor Bombay. It is not

conceivable that one central board of directors would be as useful and satisfactory as three separate boards with local knowledge. No one would suggest that the Bank of England should usurp the functions of the Scotch and Irish banks, nor would anyone be found rash enough to claim that the financial control of Spain, Sweden, and Greece should be centred in one bank.

9. I am of opinion that the existing banking facilities are capable of adequate expansion on the present lines. They are gradually becoming more elastic, and the trade of the country is usually financed without difficulty. Although the extension of currency based on credit must be slow I look for a gradual increase in the circulation of cheques.

10. I do not advocate any material change in the conditions now prescribed for the Presidency Banks except that I think they should be permitted to lend on any form of marketable security. If they were given access to London they would merely be competing with the existing exchange banks, institutions that are not open to the charge of being reluctant or hesitating in meeting trade requirements. They, as well as the Presidency Banks, are prosperous concerns that have been tried in adversity and emerged triumphant. A central State bank could not cater for the small man any more than the Presidency Banks do now. The small man must be left to the rapidly growing system of co-operative credit banks. The measure of their success indicates a promising attack on the habit of hoarding.

11. *Capital Expenditure.*—I have little criticism to offer on the present methods of meeting capital expenditure. I think in the future it will be found practicable to resort more and more to borrowing in India. I am in favour of sterling loans only as a *dernier resort.* It seems scarcely correct to explain that any capital expenditure has been met out of surplus revenue. As I understand it what has really happened is that a certain amount of floating and non-productive debt has been paid off.

12. *Sale of Council Bills.*—Broadly speaking, I favour the existing practice in selling council bills and transfers, because it works so smoothly, and yields the most favourable rate of exchange. I do not see that it would be an advantage to transfer the business of exchange to a State bank.

13. I would suggest that all sales should be put through at 1*s.* 4*d.*, and all accounts kept on the basis of 1*s.* 4*d.* When sales are made at over 1*s.* 4*d.* the difference to be carried to a special exchange reserve kept in sovereigns and used for making up the difference when sales have to be made at under 1*s.* 4*d.*

14. *Exchange Value of the Rupee.*—The fixing of the rupee at 1*s.* 4*d.* has certainly benefited India for general purposes of trade and has not permanently injured purely internal interests. It has, of course, lowered the rupee price of produce exported, but it has also to the same extent lowered the rupee price of goods imported. I am not in favour of a return to the free coinage of silver.

15. I know of no evidence that conclusively proves that gold is being exclusively hoarded in India unless the annual absorption of gold be regarded as such evidence. I do know that the native in those parts of India with which I am familiar has now taken to gold, and that sovereigns have in some cases replaced rupees in the hoard of the ordinary workman.

16. I am of opinion that the sale of council bills at 1*s.* 4$\frac{1}{16}$*d.* must tend to keep gold from circulating in India—as I presume is the object. But gold can only flow to India when there is a large excess of exports over imports.

17. I consider that the sovereign is a suitable gold coin for India generally. A ten rupee gold piece would be of more general use in circulation because wages payments for example so often fall between 10 and 15 rupees, but the country now knows the sovereign, which is an international coin, and a new coin would start with a prejudice against it. Moreover, there would be some inconvenience in having the sovereign and a ten rupee gold coin circulating side by side. In currency matters custom plays a most

important part, and before all things it is desirable to avoid as far as possible the intrusion of novelties.

18. I am inclined to believe that the advantages of opening a mint for the free coinage of sovereigns would justify the cost. There is the question of prestige as well as convenience. I would point out that the Indian mints as now run make a profit of over 100,000*l.* annually even when they are slack and coining no new rupees from purchased silver.

19. *Gold Standard Reserve.*—I do concur in the belief that a special gold standard reserve is a necessity, and I would not advocate the use of the profits on coinage for ordinary or capital expenditure until the total reserve has been brought to 25,000,000*l.* or even 30,000,000*l.* When that point has been reached I would favour the plan of using the interest and further profits in extinguishing (1) floating and (2) unproductive debts. The book value of railways and other productive works should be the actual cost without any deduction.

20. I am of opinion that the gold standard reserve should be held partly in gold and rupees and partly in sterling securities. I would not in advance fix a limit of amount (short of 30,000,000*l.*) up to which this reserve should be accumulated. But I would urge that the metallic portion be gradually brought up to at least 10,000,000*l.*—approximately half in sovereigns and half in rupees. The rupee portion to be held in India and made available (if circumstances do not forbid), for advances to the banks on appropriate security, when the bank rate goes over 6 per cent. The rate of interest to be charged to the banks I would put at 6 per cent.

21. The whole of the gold and the sterling securities should be held in London—the gold being earmarked at the Bank of England. Until the gold and rupees together amount to 10,000,000*l.* I would largely favour short loans on treasury bills, exchequer bonds, and such like, for the difference between 10,000,000*l.* and the actual amount of metallic reserve. But I would never hesitate to buy Consols at 73.

22. I thoroughly approve of the system of earmarking gold for the gold standard reserve at the Bank of England. The first object of the reserve is to ensure the stability of exchange, and no considerations of frugality should be allowed to intrefere with that object. The earning of interest is a purely secondary consideration, and it must be subordinate to the main object.

23. I would limit the securities in which the reserve is invested to such as have the Imperial guarantee. At any rate I would not go outside the list already adopted.

24. I do not approve the action taken in 1907 when over 1,000,000*l.* was taken from the reserve for railway development. I would even ask that the sum be replaced.

25. *Paper Currency Reserve.*—The existing practice has shown no points of weakness. The proportion of the note issue covered by securities is not excessive and as the amount of notes in circulation is steadily growing it ought to be practicable to raise the amount invested above the 14 crores now prescribed. The large accumulation of gold in the paper currency reserve need not be condemned since it lessens the burden on the gold standard reserve in supporting exchange. So long as the Government of India undertakes to give 15 rupees for a sovereign a certain accumulation of gold in the reserves cannot be prevented. If they go the next step and accept the responsibility of paying out a sovereign for 15 rupees a gold currency as well as a gold standard will have become effective and still more gold will have to be held in reserve. Concurrently there would be less demand for rupees and the profits on coinage would fall.

26. *Purchase of Silver.*—I believe it would prove economical in the end to make regular purchases of silver, say up to 2,000,000*l.* worth a year. Judging by the results of recent years the annual average demand would appear to be about 3,000,000*l.*

# APPENDIX XXI.

MEMORANDUM OF EVIDENCE SUBMITTED BY Mr. M. de P. WEBB, C.I.E., Chairman of the Karachi Chamber of Commerce.

The following are the terms of reference:—

> "To inquire into the location and management of the general balances of the Government of India, the sale in London of Council Bills and Transfers, the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898, more particularly with regard to the location, disposition, and employment of the gold standard and paper currency reserves, and whether the existing practice in these matters is conducive to the interests of India; also to report as to the suitability of the financial organisation and procedure of the India Office, and to make recommendations."

PART I.—"The location and management of the general balances of the Government of India."

(1) Since 1907 the general cash balances of the Government of India (in India and in London, and excluding the balances of the gold standard and paper currency reserves) have grown as under:—

£
15,633,744 on the 31st March, 1907.
17,458,679 on the 31st March, 1908.
18,219,381 on the 31st March, 1909.
25,074,522 on the 31st March, 1910.
30,263,912 on the 31st March, 1911.
30,669,702 on the 31st March, 1912.
27,916,806 on the 31st March, 1913.

It will be observed that the cash balance held on 31st March, 1912, was almost double that which was adequate seven years previously.

(2) As far as I am aware no British Government in any part of the world finds it necessary to maintain such colossal cash balances as those recently held by the Government of India. In Great Britain, the Chancellor of the Exchequer, with annual liabilities far exceeding those of the Government of India, manages to carry on the financial business of Government with a very much smaller balance of cash in the till than that employed in the case of India.

(3) I am convinced that the accumulation of these vast sums of money in the Government treasuries is wholly unnecessary. They mean that India has for some years been unnecessarily heavily taxed, and that the Budget Estimates have not been framed to correct this over-taxation. In support of this view, I would point out that during the last four years Government have collected revenue in excess of their actual expenditure as under:—

£
1,500,677 excess in the year ending 31st March, 1910.
5,897,489 excess in the year ending 31st March, 1911.
4,909,489 excess in the year ending 31st March, 1912.
7,500,000 excess in the year ending 31st March, 1913.

that is to say, nearly 20,000,000*l.* more than was actually necessary, in four years!

(4) This unnecessary withdrawal of nearly 30 crores of rupees in cash from the earnings and savings and available capital of the people cannot have aided or stimulated India's economic development. On the contrary, in a country that is notoriously handicapped for want of ample supplies of cheap capital, and where the rates of interest and discount rise to heights unknown in any other part of the Empire, this vast transfer of cash to the Government Treasuries can only have left the people correspondingly

weakened. It has been, in fact, a serious drain on the resources of the country.

(5) Assuming, however, that the uncertainty of the rainfall over a large part of the continent of India makes it impossible to estimate revenue and expenditure with any degree of accuracy—a fact that is sometimes lost sight of—and that a cash balance of, say, 5,000,000*l.* in excess of what is actually required, has been accidentally and unintentionally accumulated, it is, I submit, one of the first duties of Government—especially in such a case as India—to return this money to the public as expeditiously as possible. This can be done in three ways—directly by (*a*) reducing taxation, and (*b*) budgetting for large deficits, and indirectly by (*c*) suspending all borrowing and investing the millions in hand in reproductive works such as railways and canals. In the meantime the spare accumulation of cash in the treasuries can be freely placed at the service of the public through the agency of India's leading banks and financiers.

(6) Unfortunately, none of these courses has been followed. Instead, an irregular and noxious manipulation of the treasury balances has been carried out that has given the main benefits of India's accumulated cash to London bankers and London financiers, rather than to Indian bankers and Indian trade. Substantial portions of the Government of India's cash balance have been transferred from India to London; and, there being no legitimate need for the money in London, 15,000,000*l.* of it have been lent out in London to private borrowers on terms that, compared to those current and enforced in India, can only be regarded as a sacrifice of India's interests, and grossly unfair to India.

(7) The following figures give an idea of the extent to which Indian money, raised in excess of current requirements in India, has been transferred to, and utilised in, London. The first table shows the cash balances lying in London to the credit of the Government of India on the dates named. (N.B.—These figures are exclusive of the gold standard and paper currency reserves in London, which themselves run up to a total of over 20,000,000*l.*).

| | £ |
|---|---|
| On 31st March 1908 - - - - | 4,607,266 |
| On 31st March 1909 - - - - | 7,983,898 |
| On 31st March 1910 - - - - | 12,779,094 |
| On 31st March 1911 - - - - | 16,693,990 |
| On 31st March 1912 - - - - | 18,390,013 |

The next table gives particulars of the private firms to whom the India Office in 1912 lent some of the Government of India's spare cash:—

| | £ |
|---|---|
| Sums of over 1,000,000*l.* lent to private firms:— | |
| Samuel Montagu & Co. - - - - | 1,050,000 |
| National Discount Company - - - | 1,100,000 |
| Union Discount Company of London - - | 1,150,000 |
| Sums of 500,000*l.* and over lent to private firms:— | |
| Sheppards & Co. - - - - - | 500,000 |
| Hobler & Co. - - - - - | 500,000 |
| Chartered Bank of India, Australia, and China - | 500,000 |
| Brightwen & Co. - - - - - | 500,000 |
| Alexanders & Co. - - - - - | 650,000 |
| Reeves, Whitburn & Co. - - - - | 700,000 |
| Wedd, Jefferson & Co. - - - - | 750,000 |
| Other loans to private firms:— | |
| Allen, Harvey and Ross - - - - | 100,000 |
| Anglo-Egyptian Bank - - - - | 200,000 |
| Baker, Duncombe & Co. - - - - | 200,000 |
| Biedermann & Co. - - - - | 100,000 |
| Blydenstein & Co. - - - - | 150,000 |
| Booth and Partridge - - - - | 150,000 |
| Bristowe and Head - - - - | 200,000 |
| Roger Cunliffe, Sons & Co. - - - | 450,000 |
| The Eastern Bank - - - - | 100,000 |
| J. Ellis and Sons - - - - | 200,000 |

| | £ |
|---|---|
| Gillet Bros. & Co. | 150,000 |
| Haarbleicher and Schumann | 150,000 |
| King and Foa | 200,000 |
| Laurie, Milbank & Co. | 100,000 |
| Lazard Bros. & Co. | 250,000 |
| Lyon and Tucker | 100,000 |
| Matthey, Harrison & Co. | 100,000 |
| Mercantile Bank of India | 250,000 |
| L. Messel & Co. | 100,000 |
| National Bank of New Zealand | 150,000 |
| Ryder, Mills & Co. | 250,000 |
| Henry Sherwood & Co. | 50,000 |
| Smith, St. Aubyn & Co. | 250,000 |
| Steer, Lawford & Co. | 150,000 |
| Tomkinson, Brunton & Co. | 150,000 |

To secure the loan of State money from the India Office, most private borrowers are obliged to lodge first-class securities, such as Indian Railway Stock, Indian Sterling Bills, British Treasury Bills, Bonds and Stocks, and such like. The available supply of these securities, however, being limited, private borrowers were unable to relieve the India Office of all the millions sterling that it had to spare; and in 1909 recourse was had to the seven leading London Bankers, whose names are also on the India Office's list of approved borrowers. The following statement gives the names of those bankers with whom deposits of Indian State money were made in 1912 without security:—

| | £ |
|---|---|
| London County and Westminster Bank | 1,800,000 |
| Glyn, Mills, Currie & Co. | 1,550,000 |
| London Joint Stock Bank | 1,500,000 |
| National Provincial Bank of England | 1,300,000 |
| Union of London and Smith's Bank | 1,250,000 |

The rates of interest secured for the loan of, in all, over 15 millions sterling (15,000,000*l.*) of Indian State money have often been only 2½ to 2 per cent. and even less, barely one-half of the rate of interest which many of the securities lodged at the India Office against the loans of public money, were yielding.

(8) It has been explained, on behalf of the India Office, that the loans are usually made for periods of three to five or six weeks only, and that the apparently low rates of interest earned are, in fact, the rates of interest current in London for short period loans. In reply, it is necessary to point out that to onlookers in India it is by no means clear why, with a floating cash balance of at least 10,000,000*l.* in excess of what was likely to be required, the India Office continued for years to lend out this spare cash for such short periods as three to five or six weeks. The following table gives the total cash transactions (new loans and repayments, figures approximate) since 1908 of 10 only of the principal private borrowers:—

| | | | | | |
|---|---|---|---|---|---|
| Alexanders & Co. | borrowed and repaid | about | 1,000,000*l.* | per annum | since 1908. |
| Brightwen & Co. | ,, | ,, | ,, | 1,300,000*l.* | ,, |
| Bristowe and Head | ,, | ,, | ,, | 900,000*l.* | ,, |
| Cunliffe, R., Sons & Co. | ,, | ,, | ,, | 1,000,000*l.* | ,, |
| Hobler & Co. | ,, | ,, | ,, | 1,200,000*l.* | ,, |
| Hopkins and Giles | ,, | ,, | ,, | 1,300,000*l.* | ,, |
| Reeves, Whitburn & Co. | ,, | ,, | ,, | 1,400,000*l.* | ,, |
| Samuel Montagu & Co. | ,, | ,, | ,, | 2,000,000*l.* | ,, |
| Sheppards & Co. | ,, | ,, | ,, | 1,000,000*l.* | ,, |
| Wedd, Jefferson & Co. | ,, | ,, | ,, | 1,500,000*l.* | ,, |

The above borrowers appear to have been the recipients of what amounts practically to standing loans, totalling in all several millions sterling, for a period of over five years. If this money has been lent out in short period loans of three to six weeks, and the loans regularly and continuously renewed —as appears to have been the case—then the practical upshot has simply been to give to the borrowers what amounts to permanent loans at rates

ordinarily payable for short-term loans. Borrowers have apparently pocketed the difference between the rates yielded by the securities lodged by them and the rates at which they could obtain loans of public money from the India Office. In the meantime the Indian taxpayer has lost the benefits that were clearly his due.

(9) Concurrently with the holding of a cash balance many millions sterling in excess of legitimate requirements, and the regular disposal of most of this balance by short period loans that, by constant renewals, became to all intents and purposes permanent loans on the easiest imaginable terms for the borrowers, the India Office has not only omitted to pay off as much floating debt as it could, but it has in effect borrowed back some of the money which it has been lending out so freely. Thus, with the huge cash balances in hand quoted below, and large sums of money (portions of these same balances) lent out on short-term loan rates to private firms in London, the India Office has apparently borrowed temporarily the following sums in the London money market: —

| Cash Balance in Hand. | | Yet Borrowed as Under. | |
|---|---|---|---|
| | | | £ |
| 1910. | £ | April | 1,000,000 |
| 1st April | 12,779,094 | June | 2,500,000 |
| | | December | 1,500,000 |
| 1911. | | April | 1,000,000 |
| 1st April | 16,696,990 | June | 2,000,000 |
| | | December | 1,500,000 |
| 1912. | | April | |
| 1st April | 18,390,013 | June | |
| | | December | |

So fixed have the India Office habits of lending and borrowing now become that the Financial Department of the Office appears to lend out money and borrow back money almost simultaneously!

(10) With such colossal sums of the India taxpayers' money lying uselessly in London and only earning comparatively trifling rates of interest, it might be thought that substantial portions of this money could have been applied to the construction of reproductive capital works in India, thus avoiding the necessity of paying further sterling interest charges, as recommended by the India Currency Committee of 1898. Yet this policy does not appear to have been actively developed. On the contrary, the same old customary sterling borrowing for capital works has been indulged in, as though the huge cash balances in London did not exist. Last year, notwithstanding the vast sums of public money at the India Office's disposal, and in spite of the fact that the London money market was faced with more demands for capital than it was able conveniently to meet, an effort was made to borrow 3,000,000*l.* in London on behalf of the Government of India. The money, it is true, was produced—by the underwriters—and at a great expense to the Indian taxpayer. It would be interesting to know if any of this last India Stock was at once lodged at the India Office as security against short periods loans of Indian money. The point is an interesting one, as the public in India have noticed that a portion of the security lodged last year against the 1,050,000*l.* borrowed by Messrs. Samuel Montagu and Co. consisted of India Sterling Bills.

(11) I am strongly of opinion that where the proceeds of taxation in India yield more than the estimated requirements of the year, the surplus should be utilised in India for the benefit of India, and not transmitted to London, there to be lent out on easy terms to cosmopolitan private borrowers, who have little or no direct interest in matters Indian.

(12) Remembering that the Indian paper currency and paper currency reserve are under State control, and therefore easily available to Government in times of grave national emergency, I am of opinion that the Government of India's floating cash balance ought, in the interests of economy, to be kept down to a maximum of 10,000,000*l.* of which 3,000,000*l.* might be kept in the Treasury in London, leaving the balance of 7,000,000*l.* (*i.e.*, ten and a

half crores of rupees) to be held in the Treasuries and Presidency Banks in India.

(13) As far as I am able to see, 3,000,000*l.* should be ample for the India Office's requirements in London. Should, however, the funds in London unexpectedly run low, then it would be far more economical for the Secretary of State to borrow a little, temporarily, rather than overtax India, and place the proceeds at the India Office's disposal in case of emergencies.*

(14) With regard to the ten and a half crores cash balance in India, as much of this as possible should be placed at the service of the Indian money market, just as is done by Government in England. The balances kept with the Presidency Banks (which balances were originally in the nature of compensation to the banks for the loss of their note circulation after the introduction by Government of a State paper currency), should be considerably increased. With the abolition of the gigantic banking business in London, which has by degrees converted the India Office into one of the chief money-lending concerns in the world, the problem of easing the Indian money market by short loans to approved borrowers in India, might be considered. It is common knowledge that the withdrawal and retention in the Government treasuries of vast sums of cash arising out of the customary collection of the Indian revenues, contributes materially to that severe seasonal tightness of the Indian money market which so handicaps Indian merchants in their ordinary business dealings. Indeed, Indian sellers are sometimes forced to part with their produce owing to their inability to pay the very heavy rates of interest current in the cold weather. It should be Government's business to manage its general balances so as to avoid as far as possible consequences of this kind.

(15) To summarise, I am of opinion (*a*) that the cash balances recently held by the Government of India have been far too large; (*b*) that the location of 12,000,000*l.* to 15,000,000*l.* of the general balance in London since 1911 has been altogether unnecessary, and has involved a serious drain on India; and (*c*) that the management of the balances by the India Office has been wasteful and unbusinesslike in the extreme, with the result that India has lost heavily. The remedies that I would now propose are:—

(*a*) That the maximum cash balance of the Government of India should henceforth be restricted to 10,000,000*l.*

(*b*) That not more that 3,000,000*l.* of this balance should be held in London by the India Office; and

(*c*) That all Treasury balances in India that can be spared should be placed at the service of the public through the agency of the Indian money market.

PART II.—"The sale in London of Council Bills and "Transfers."

(1) With the closing of the Indian mints to the free coinage of silver in 1893, the necessity for selling rupees by auction largely disappeared. The old procedure was, however, maintained, and weekly auctions in London of Council Drafts on India were held as before. In 1899 the Indian Currency Committee having recommended a *pucca* gold standard for India with a gold currency (sovereigns to be legal tender for Rs. 15), and open mints for the free coinage of gold, and the Secretary of State and the Government of India having both accepted these recommendations as being the best possible development of the Indian currency system, the old practice of auctioning weekly the rupees accumulated in the Indian treasuries became entirely obsolete. But the India Office still carried on the system, and the weekly sales of Council Drafts continue till this day. Moreover, in recent years the auctions have been conducted with such an entire disregard of everything that has gone before that they have become one of the main obstacles in the way of the successful carrying out of some of the most important recommendations of the Indian Currency Committee. Indeed, so erratic and unintelligible have the proceedings now become that many of the public in

* "The expense (of borrowing in London) even if the Secretary of State had to pay a rate of interest appropriate to Turkey or China, would be much less than the expense of maintaining a very great reserve against unlikely emergency . . ." *Vide* Professor J. M. Keynes' "Indian Currency and Finance," page 156.

India have been forced to the conclusion that the India Office's chief concern in conducting the weekly auctions of Council Drafts is to manage the sales in such a way as (*a*) to remove as much Indian State money as possible from India to London for the use of the London money market; and, at the same time, (*b*) to delay for as long a period as possible the establishment of the gold currency in India recommended by the Indian Currency Committee of 1898. The business of providing the Secretary of State with the means of meeting the home charges on the best possible terms for India seems to have been relegated to quite a secondary position.

(2) And yet the first and only object of the weekly sales of Council Drafts was, and should remain, the provision in London out of the revenues collected in India of the sums necessary to enable the Secretary of State to meet India's home charges on the best possible terms for India. With the Indian mints open to the free coinage of silver, and the sterling value of the rupee depending entirely on the sterling price of silver in London and New York, no better means of paying India's sterling debts could possibly have been devised than weekly auctions in London of a portion of the stocks of rupees accumulated in the treasuries in India in the course of the collection of the revenues by Government. The competition of the public at these weekly auctions enabled Government to secure the best possible sterling prices for such rupees as were auctioned, and the system was therefore admirable in every way.

(3) With the closing of the Indian mints to the public in 1893, the position completely changed. The public were no longer able to obtain supplies of rupees in India in exchange for silver. The only source of supply was the Government treasuries. The Secretary of State was in the position of monopolist with an article for sale for which there was a large demand. He could ask and obtain any price in reason that he pleased for his wares. Buyers were plentiful; sellers there were none, except himself. Who in such circumstances would dream of putting his goods up for auction, except with the object of securing his own price with the least possible delay? The Secretary of State's price was 1*s.* 4*d.*, and, with a little firmness and courage, he could easily have obtained 1*s.* 4*d.* Yet he sacrificed his business reputation (and also India's interest) by accepting for years almost any price that the public cared to offer him. Not until the public themselves voluntarily increased the prices that they offered, did the India Office secure the 1*s.* 4*d.* that they wanted from the first. From 1893 to 1898 was a period of continuously bad management so far as the sales of Council Drafts were concerned—"a long series of economic errors," to use the words of Professor Dunning MacLeod.

(4) The Indian Currency Committee of 1898 accepted Professor Dunning MacLeod's advice for the improvement of India's currency system almost in its entirety, and their recommendations for the re-establishment of a gold currency in India with open free mints for the coinage of gold were, as far as they went, exactly as suggested by the learned professor—the sovereign to be unlimited legal tender at the rate of one sovereign for fifteen rupees, the Indian mints to be made branches of the Royal Mint in London, as the Australian mints are, for the free coinage of gold (sovereigns and half-sovereigns, Professor MacLeod suggested), and the silver token coinage to be increased or restricted only as might be found necessary in the people's interests. Professor MacLeod considered a gold standard without a gold currency unthinkable, and he made various suggestions to encourage the inflow and use of gold as currency in India. The Indian Currency Committee also looked forward to a gold currency as an essential part of the scheme for improving India's monetary system. Government accepted the Indian Currency Committee's recommendations, and the Government of India at once attempted to carry them out.

(5) In face of the above facts, the principles that ought to have guided the Secretary of State in Council with regard to the sales of Council Drafts are perfectly clear. After Government's acceptance of the Indian Currency Committee's Report—

i. (*a*) No Council Drafts should have been sold at less than 1*s.* 4$\frac{1}{16}$*d.* per rupee, it being the India Office's clear duty to obtain the best possible price for all the rupees sold.

(*b*) As soon as a sum equivalent to the total of the home charges had been realised, not another rupee should have been put up for auction until the proportion of sovereigns in the Indian currency had exceeded public requirements, and there was a demand for more token currency.

(*c*) When it became necessary to provide money in London for the purchase of silver for the manufacture of token currency, further sales of Council Drafts should have been made for this special purpose, but not at a lower rate than specie point for gold imports—then about 1*s.* 4 5-32*d.*

(*d*) With the exception of sales of Council Drafts to provide the means in London wherewith to pay (1) the home charges and (2) the cost of silver for token coinage, not a rupee should have been put up for auction in London.

The observance of these principles is essential, I submit, if Government's acceptance of the Indian Currency Committee's Report of 1899 is to be loyally acted upon and carried out by all Government Departments. As a matter of fact, the India Office has not acted upon a single one of these principles. On the contrary, in its sales of Council Drafts since 1899 the India Office has violated every one of them in that it has—

ii. (*a*) Sold Council Drafts at less than 1*s.* 4$\frac{1}{8}$*d.* (sometimes at less even than 1*s.* 4*d.*), thus gratuitously accepting lower prices than it need have done for its drafts, and to this extent needlessly sacrificing India's interests.

(*b*) Accumulated huge sums of Indian State money in London greatly in excess of the home charges. There being no legitimate need whatever in London for this money, India has been wrongly deprived of substantial portions of its balances and reserves, to the loss and danger of Indian interests.

(*c*) Sold Council Drafts for the provision of money for the purchase of silver in London for token coinage at rates below gold import point, thus depriving the gold standard reserve of its full share of profit on the coinage of new rupees.

(*d*) Checked the flow of gold to India and actively encouraged the increased use of the depreciating silver token currency by selling Council Drafts at rates well below gold import point.*

The sales of Council Drafts by the India Office since 1899 have thus been most unbusiness-like and unsatisfactory, from the point of view of Indian interests.

(6) In the course of his evidence before the Indian Currency Committee of 1898, and in answer to an inquiry as to the length of time that might be requested for the establishment of a gold monetary standard with a gold currency in India, Professer Dunning MacLeod replied that . . "if "Government are really in earnest and put their hearts into it, and "especially get the banks to assist them, I do not see why it should not all "be done in two years." . . . Over 14 years have passed since that opinion was given, and yet India is only now using sovereigns freely as currency. One of the chief causes of the delay has been the active obstruction of the Finance Department of the India Office in its grossly excessive sales of Council Drafts at rates that have directly encouraged the further use of silver tokens and so checked the inflow and use of sovereigns as currency.

(7) I am strongly of opinion that these abuses of the Council Draft system should be terminated forthwith. The sales of Council Drafts should be strictly limited to the sum required to meet the home charges, and no allotments should in any circumstances be made below, say, 1*s.* 4$\frac{1}{8}$*d.* to 1*s.* 4 3-32*d.*—*i.e.*, about the present equivalent of specie point for gold imports into India. The sum required in London for the home charges having been realised, no further sales of Council Drafts should be made except for the express purpose—duly notified to the public—of purchasing metal for the manufacture of further token coinage. Such special sales of

* "This was done on a large scale in 1905-6 and 1906-7." . . . *Vide* Professor Keynes' "Indian Currency and Finance," page 116.

Council Drafts should not be made at anything below specie point for gold imports. Only by thus regulating the sales of Council Drafts can the India Office's noxious interference with (1) the foreign exchanges, (2) imports of gold, (3) local discounts, and (4) general price levels be checked.

(8) Further, I am of opinion that when selling Council Drafts on India for the home charges and for the purchase of the metal required for supplementing the token coinage, the practice of confining such drafts to the treasuries at Calcutta, Bombay, and Madras needs extension. The time has now come for increasing the facilities enjoyed by the public in this connection, and I would urge that Council Drafts on the treasuries at Delhi and Karachi be made available henceforth. A system that has remained unchanged for over half-a-century may now well undergo revision and extension.

PART III.—"The measures taken by the Indian Government and the "Secretary of State for India in Council to maintain the exchange "value of the rupee in pursuance of or supplementary to the recom- "mendations of the Indian Currency Committee of 1898."

(1) The most important, because vital, portion of the Indian Currency Committee's recommendations is contained, in my opinion, in section 54 of the Report . . . "We consider that the Indian mints should be thrown "open to the unrestricted coinage of gold on terms and conditions such as "govern the three Australian branches of the Royal Mint. The result "would be that under identical conditions the sovereign would be coined, "and would circulate both at Home and India." . . .

(2) The India Office and the Government of India at once endeavoured to give effect to this recommendation; but the Deputy Master of the Mint in London, by a report that was in one respect historically imperfect, and in another economically unsound, appears to have misled both the Treasury and the India Office, with the result that the Government of India after two years of correspondence with the Home authorities (during which every departmental detail asked for by the London Mint Master was conceded), at length—25th December 1902—decided to postpone the scheme until a more favourable opportunity should arise. The consequences of that unfortunate step have been the complete subjection of India's currency and finances to official "management" from London, and the chaotic condition of affairs that has led to the present investigation.

(3) Last year the Government of India again represented to the Secretary of State the paramount necessity of re-opening India's Mint to the public. The free coinage of gold in India was again urged, but owing, apparently, to some difference of opinion between the Government of India and the India Office regarding the value of the gold coin to be struck and the authority under whose instructions the new Indian Gold Mint should work, the matter is again in abeyance, and India still continues to lack the central feature of a modern currency system, namely, an open, free, gold mint.

(4) I am strongly of opinion that the Bombay Mint should be opened forthwith to the free coinage of gold, as specifically recommended by the Indian Currency Committee 14 years ago. Further, in view of the facts that sovereigns already—

(*a*) are legal tender in India;

(*b*) are being regularly imported into India;

(*c*) are now in circulation to the extent of over 40,000,000*l*. in India; and

(*d*) are daily growing in popularity in India.

I am of opinion that the sovereign is the best gold coin for use as currency in India. If, however, the departmental difficulties of coining sovereigns in Bombay be absolutely insuperable by Government, then an Indian sovereign of exactly the same size, weight, and fineness as the British sovereign is, in my opinion, far preferable to a new Indian gold coin of the value of 10 rupees.

(5) The recommendations of the Indian Currency Committee, which I consider next in importance, are contained in sections 54, 59, and 60 of the Report. Section 54 recommends that the British sovereign be made legal tender and current coin in India. Section 60 recommends that . . . . " Fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public "; whilst section 59 suggests that . . . " When Government has accumulated a " sufficient gold reserve, and so long as gold is available in its Treasury, it " might discharge its obligations in gold instead of rupees." . . . These recommendations clearly lay down an active policy for Government with the object of promoting the use of gold as currency, and, if carried out, would go far to place India's token currency on the most satisfactory and stable basis.

(6) The recommendation to make the British sovereign a legal tender in India was at once carried out, but the other recommendations, where not wholly ignored, have been but indifferently observed. The action of the India Office in selling rupees at prices below the equivalent of gold import point, for example, was, as I have already pointed out, a direct incentive to India to use silver token currency in preference to British sovereigns. Nor was this active opposition to the establishment of a gold currency in India counteracted in any way by the Government of India. In reply to an inquiry in May 1912, by the Karachi Chamber of Commerce as to what steps were being taken by Government to give effect to the recommendations of the Indian Currency Committee for popularising sovereigns in India, the Government of India replied (17th June 1912) that . . . " the policy of " Government has been, and is, while refraining from taking any " steps to force gold on the people, to discharge their obligations " in sovereigns wherever payees so desire." . . . In other words, the policy of Government has been, in effect, to ignore the recommendation of the Indian Currency Committee to . . . " discharge its obligations in gold," . . . and to do nothing in this direction unless the Indian public demanded sovereigns. This " wait-and-see " attitude has, in my opinion, greatly delayed the carrying out of the recommendations of the Indian Currency Committee, and is much to be deplored.

(7) I am of opinion that the period of inactivity in these matters should now be brought to a close, and that the Indian Currency Committee's Report having been accepted by Government, the recommendations contained in that Report should now be acted upon without further delay. The attitude of the Government of India in this connection, namely, to carry out the recommendations if the Indian public so desire, seems to me weak and unbusinesslike. I therefore urge—

(*a*) That the Bombay Mint be opened at once to the free coinage of sovereigns, the Mint being equipped with an up-to-date refinery capable of dealing promptly and efficiently with the products of the Indian gold mines;

(*b*) That the Government of India now discharge its obligations in sovereigns as far as possible;

(*c*) That no more token coinage, except for replenishing wear and tear and loss by export, be manufactured unless and until it be proved that the proportion of gold in the currency exceeds the requirements of the public. (And, in this connection, the statistics of bygone years and conditions are not, of course, safe guides.)

(8) If Government " put their hearts " into this business, to use Professor MacLeod's expression, India will very soon have a gold currency in active circulation—at the banks and in the Government Treasuries—somewhere approaching 100,000,000*l*. With such a currency in use, the exchange value of the rupee will be as permanently secured as the exchange value of the English shilling, or the French five-franc piece, or the silver dollar of the United States of America. And that, too, without the necessity of maintaining any gold standard reserve, or other wasteful, and, possibly delusive substitute of that kind.

(9) In this connection it is desirable to recall the words of the late Sir Samuel Montagu in 1899. When giving evidence before the Indian

Currency Committee, he drew the Committee's attention to the fact that the world's production of gold was then "unequalled." Whilst strongly advocating a gold currency for India, he added: "You would do a service, "I think, to Europe if you were gradually to utilise this extraordinary "surplus of gold." Asked, if he thought that the establishment of a gold standard and currency would have an "appreciably injurious effect on the gold market of the world," Sir Samuel Montagu replied, "I think not." Since this opinion was given, the world's output of gold has almost doubled, and is now on the verge of 100,000,000*l.* per annum. Notwithstanding the enormous sums of gold withdrawn from the world's use by the United States of America, by the great military Powers of the Continent of Europe, and by the growing South American Republics, the value of gold is everywhere diminishing—prices are universally rising. There is ample gold, therefore, to satisfy the world's requirements, including the requirements of India. Moreover, the utilisation of some of this gold by India, would tend to arrest the present unhealthy rise in prices, which is by no means wholly advantageous to a creditor nation consisting largely of small, fixed-wage earners—such as Great Britain.

PART IV.—"The location, disposition, and employment of the Gold Standard Reserve."

(1) The recommendations of the Indian Currency Committee with regard to the formation of a gold reserve are given in Sections 59 and 60 of their Report, and are quite clear and explicit. . . . . "We recommend that "any profit on the coinage of rupees should not be credited to revenue, or "held as a portion of the ordinary balance of the Government of India, "but should be kept in gold as a special reserve, entirely apart from the "paper currency reserve and ordinary Treasury Balances (Section 60). " . . . . We regard it as the principal use of a gold reserve that it "should be freely available for foreign remittances whenever the exchange "falls below specie point; and the Government of India should make its "gold available for this purpose when necessary, under such conditions as "the circumstances of the time may render desirable." (Section 59).

(2) The above recommendations are, in my opinion, thoroughly sound and complete; and, had they been acted upon without modification after modification, would have provided that security for the sterling exchange value of the rupee, which is at present lacking in one most important respect so far as the gold standard reserve is concerned.

(3) The most serious and objectionable departures that have been made from the Indian Currency Committee's recommendations are as under:—

(*a*) Instead of all the profits on the coinage of new rupees being kept in the gold reserve, over a million sterling of these profits has been diverted elsewhere.

(*b*) Instead of such profits as have been credited to the gold reserve being held in gold, they have been—
  (1) invested in sterling securities,
  (2) converted into and held in silver,
  (3) lent out to private borrowers in London.
  Out of 22,657,776*l.*, only 1,730,000*l.* was held in gold on the 30th April, 1913.

(*c*) Instead of the gold reserve being kept entirely apart from the paper currency reserve and the ordinary Treasury Balances, the three are constantly being intermingled at the option of the India Office, so that nobody knows from month to month the exact nature of the reserves. Most of the metallic currency in the paper currency reserve at present consists of gold (the paper currency being redeemable in silver), while most of the metallic currency in the gold standard reserve is at present composed of silver (the object of the reserve being to supply the public with gold). Currency management of this kind has been described as, and, in truth, is "sheer muddling."

In addition to these specific departures from the recommendations of the Indian Currency Committee, the India Office has repeatedly failed to secure

all the profit it should have done for the gold standard reserve in that it has replenished the token coinage by sales of rupees at absurdly low rates, *i.e.*, at rates well below specie point for gold imports. This matter has been referred to before in paragraph 5, Part II. of this Note. It is now only necessary to repeat that by these sales an altogether unnecessary loss has been incurred at the expense of the gold standard reserve.

(4) Various explanations have been given from time to time for this wholesale ignoring of the Indian Currency Committee's recommendations and of the protests of the Chambers of Commerce and of the Press in India. I have carefully considered these explanations—excuses I should prefer to call them—from time to time, and I have no hesitation in describing them all as unsound and unacceptable. Moreover, the constant chopping and changing of the composition of the gold standard reserve has not only deprived the public of confidence in the administration of this reserve, but it has, in my opinion, exposed India to grave danger.

(5) In connection with the general policy of holding the bulk of the gold standard reserve in London, I submit that Government have gone entirely beyond their province in undertaking to provide not only gold for export, but gold ready delivered at a financial centre on the other side of the globe. The business of Government, so far as the maintenance of the sterling value of the rupee is concerned, is to provide gold in India for export, if required, and not to endeavour to anticipate the requirements of the public by laying down 20,000,000*l.* of India's money in London (or elsewhere) in advance. No doubt London is in all probability the centre where the gold, in an economic, financial, or political crisis involving a change in the balance of trade against India, would be required. But Government's duty ends when it provides that gold in India. To deposit the bulk of the gold in a centre where the banking community are already, on their own initiative, considering how they can strengthen their own admittedly slender and inadequate gold reserves, is to expose India to risks and dangers from which she had every right to expect complete protection.

(6) I am strongly of opinion that India's gold standard reserve should be restored to its original name, composition, and location. Let it be called the gold reserve, and let it be in the main, at any rate, what its name implies, a reserve of gold. (No other nation in the world, that I am aware of, holds its gold reserves in securities, silver, and short loans to private borrowers outside its own country.) For these reasons I urge that the bulk of the securities, in which nearly 17 millioms sterling of the gold reserve is at present invested, be realised (by degrees, so that severe loss may be avoided), and the proceeds gradually remitted to India, for retention in the Indian Treasuries, in gold. That monstrosity, the "silver branch" of the gold reserve should be at once abolished, and the 4 crores 83 lakhs of rupees at present held therein be transferred to the paper currency reserve in exchange for the equivalent in sovereigns. If 7,000,000*l.* be left in London invested in securities it will probably be as much as could be liquidated in a hurry (without heavy loss and inconvenience to the London money market), to meet a sudden demand for drafts on the India Office arising out of a failure of the monsoon rains and a consequent change in the balance of trade. Were 7,000,000*l.* insufficient, then gold could be shipped from India to London, and London would no doubt be very relieved to see the metal coming. This sum of 7,000,000*l.* invested in London in securities should be an absolute maximum, and there would be no spare gold reserve cash, therefore, in London to be lent out (as at present) to private borrowers.

(7) My reasons for advocating that the bulk of the gold reserve be held in gold, in India, are these: Great Britain's gold reserves have been for some years notoriously slender almost to the verge of danger. Practically every man of business, banker, Chamber of Commerce, journalist, economist, politician, and statesman of knowledge and repute has been long agreed on this point. In these circumstances the placing of 15 to 20,000,000*l.* of India's gold reserve in London is a gratuitous "tempting of Providence." Quite apart from the inconvenience that would be caused to London by a sudden withdrawal of this 15 to 20,000,000*l.* owing to economic or political complications in India, there are two sets of complications conceivable in

England that would make it an impossibility for India to withdraw her gold reserve from London, no matter how badly India might require it; and those are (1) a panic in England arising out of an economic crisis, and (2) a financial crisis arising out of Great Britain being involved in war with a first-class power. In either of these circumstances the sale of India's 17,000,000*l.* worth of gold standard securities would be an impossibility. Even were the whole sum earmarked in gold at the Bank of England, there is no doubt that at a moment of grave national danger, Government would at once appropriate India's gold in London, and India would be left in the lurch for the time being. Were the sterling value of the rupee to collapse at such a moment, the difficulties of an already critical situation would be greatly accentuated.

(8) Which being so, I urge that it is far better, both in India and England's interest, to retain the bulk of the gold standard reserve in gold in India. The existence of a 20,000,000*l.* reserve of gold in India (in addition to the 7,000,000*l.* in securities at home), would not only guarantee the exchange value of the rupee, but it would, in time of grave national peril, be a source of strength to the whole Empire.

(9) In concluding this plea for the immediate observance of the recommendations of the Indian Currency Committee in connection with the gold standard reserve, I desire to draw attention to the India Office's Explanatory Memorandum of the East India Accounts and Estimates, 1911–12, issued for the information of Parliament in July 1911, wherein the following statement appears (on page 9):—

> "Gold Standard Reserve.—In accordance with a recommendation made by the Indian Currency Committee of 1898–99, it was decided that, with effect from April 1st, 1900, . . . the reserve should be "held mainly in sterling securities." . . .

No such recommendation was ever made by the Indian Currency Committee. On the contrary, the Indian Currency Committee recommended that the reserve should be held in "in gold." This misrepresentation of fact (which makes it appear that the India Office has been acting in accordance with authority instead of in opposition to authority), should, I think, be specifically corrected in the next Explanatory Memorandum of the East India Accounts prepared for the information of Parliament.

## PART V.—"The Paper Currency Reserve."

(1) In one respect India's currency system is in advance of that of the United Kingdom in so far as it includes a State paper currency, very well managed by the Comptroller General and Head Commissioner of Paper Currency, Calcutta. Nearly 10,000,000*l.* of this paper currency is supported by interest-bearing securities, the earnings from which flow into the State coffers—a marked improvement on the private bank note system of Great Britain. The total amount of Indian currency notes in circulation is now nearly 70 crores of rupees (*i.e.*, nearly 44,000,000*l.*). There is no limit to the amount of issue, but the law provides that the total issue must be supported by a reserve consisting of metal and securities. The maximum limit for the securities stands for the present at 14 crores (9,333,333*l.*). The paper currency is issued in the form of promises to pay bearer on demand so many rupees. These paper promises or currency notes are legal tender in India, and are very popular in the larger cities and towns, and among all the best informed classes of the community.

(2) Although the Indian paper currency is purely an Indian concern, and is only issuable and encashable in India, a practice has been initiated in recent years of holding a part of the reserve against the Indian note issue in London. Such a practice—the practice of holding a country's paper currency reserve in some other country on the other side of the world—is, I believe, unprecedented in the history of any nation. Nor have any of the reasons advanced on behalf of Government in the case of the Indian paper currency reserve convinced me that the holding of 7/10,000,000*l.* of the reserve in London, instead of in India, is other than a wasteful and thoroughly bad policy from the point of view of India.

(3) The principal official arguments used in favour of holding a large proportion of the Indian paper currency reserve in London rather than India have been as under:—

(*a*) So long as gold is not in active circulation in India, what the presenter of currency notes in India requires is not sovereigns, but rupees. By keeping gold ready in London (over 6,000,000*l.* is "ready" at present at the Bank of England) the India Office can quickly buy silver to coin into rupees to be handed to the presenter of currency notes in India. (*Vide* the late Sir Edward Baker's speech on the Budget of 1906.)

(*b*) The India Office can easily appropriate and interchange the money with the general Treasury balances and with the gold standard reserve as may be found convenient from time to time. (Sir Edward Baker.)

(*c*) Investments in sterling securities in London are better for India than investment in Government of India rupee paper, because such securities are not necessarily influenced by the causes which might shake public confidence in the Indian paper currency. (*Vide* Mr. Baker's reply to Mr. Gwynne in the House of Commons in December 1912.)

(*d*) The money . . . "would be readily available . . . to "support exchange in case of a diminished demand for rupee "currency." . . . (*Vide* Mr. Montagu's reply to Mr. Touche in the House of Commons in August 1912.)

(*e*) The money (*i.e.*, 6,000,000*l.* to 7,000,000*l.*) . . . "is not required "in India for the payment of notes, since a sufficient metallic "reserve is held in India for that purpose." . . . (*Vide* Mr. Montagu's reply to Mr. Touche in the House of Commons in August 1912.)

(4) These arguments have only to be stated in juxtaposition to each other to stand self condemned. Apart from the fact that they are in a large measure mutually destructive, no one of them will bear examination. Thus, the idea of holding permanently 6,000,000*l.* to 10,000,000*l.* in London in case the India Office might at any moment suddenly and unexpectedly want to enlarge the Indian token currency by this amount, is preposterous. The silver coinage ought to be replenished regularly and continuously in small sums (so as not to inflate unduly the token currency or force up the silver market against Government); and the money for this purpose ought to be specially provided in London through special sales of Council Drafts. As a matter of fact, the paper currency reserve lying in London was not utilised for the recent large purchases of silver, although there was nearly 7,000,000*l.* lying in London for this special purpose (according to Sir Edward Baker's ideas). These recent silver purchases were financed through the agency of Council Drafts wastefully sold at below specie (gold import) point.

(5) The facility-for-chopping-and-changing argument is perhaps the worst that could be employed in connection with a paper currency reserve. The Indian paper currency reserve has been created for a special object, namely, to encash the Indian paper currency in India; and nothing is more likely to shake confidence in this currency than the knowledge that the specie necessary for its encashment is liable to be removed to the other side of the world and invested in securities that, in an economic crisis or great war in Europe, might prove absolutely unsaleable.

(6) In this connection, I venture to submit that the investment of any of the Indian paper currency reserve in British securities in London is a mistake involving loss and possible danger to India. The Indian paper currency is, as I have said before, purely a local concern, the benefits of which should be confined entirely to India and not shared with London financiers anxious to unload depreciating sterling securities. (I do not mean to imply that this was the Government of India's intention when investing in London; but this is the practical effect of their so doing.) As far as I can make out, India stands to lose about a quarter of a million sterling through a portion of its paper currency reserve being invested in London in sterling securities; and this loss is, in my opinion, likely to increase. Investment of the Indian

paper currency reserve up to the statutory limit should, I urge, be made only in Indian securities. In this connection the list of securities acceptable for the paper currency reserve might very well be enlarged.

(7) The argument employed by the Under Secretary of State for India that if the gold standard reserve proved inadequate for satisfying an adverse balance of trade, the portion of the Indian paper currency that is held in London might be appropriated to support exchange, is particularly vicious in that, not only is it radically unsound, but it casts a suspicion on the efficacy of the gold standard reserve. Apart from the extreme improbability of the gold standard reserve breaking down (except in consequence of the inability of the India Office to realise its 16,000,000*l.* worth of securities in a time of crisis), the fact that a portion of the paper currency reserve was held in London instead of India would have no bearing on the situation at all. And for this reason. If the paper currency reserve consisted very largely of sovereigns, the sovereigns would be just as effective in supporting exchange in a grave emergency whether they were made available from the Treasuries in India or from the vaults of the Bank of England. Indeed, did the crisis happen to be a Western crisis rather than an Indian crisis, the gold would be far more valuable to India (and possibly to Great Britain), were it held in India rather than in the United Kingdom. The argument is, therefore, both worthless and misleading.

(8) Nor can any weight be attached to Mr. Montagu's other argument, or, rather, *ipse dixit*, that a sufficient metallic reserve is already maintained in India against the paper currency in circulation, and that 7,000,000*l.* or so of the reserve can therefore be removed with safety from India to London. The removal of this substantial portion of the reserve from India merely on the arbitrary decision of the India Office that the money is not wanted in India, will not satisfy Indian critics. Not until the matter has been thoroughly weighed by all the leading banking and commercial interests in India can it be agreed that the proportion of the metallic reserve to the total issue is unnecessarily high, and that a sum of 7,000,000*l.* may be invested. Even if this turn out to be the case the investment should, in India's interests, be made in India and not in London.

(9) I am strongly of opinion that as the paper currency is only issuable, legal tender, and encashable in India, the whole of the paper currency reserve should be held in India. The administration of the paper currency and the reserve there-against should be left entirely in the hands of the Government of India, because it is purely a local development in which London financial interests have no legitimate concern. I think that the Paper Currency Act should be so amended as to—

(*a*) confine the holding of the reserve to the Government Treasuries in India;

(*b*) restrict the investment of the reserve to Indian securities, not necessarily Government paper only; and

(*c*) permit the investment of a certain portion of the reserve (or of the gold standard reserve) temporarily—during the busy season in India—to relieve the seasonal pressure in the Indian money market.

PART VI.—"Whether the existing practice in these matters is conducive to the interests of India."

(1) It is everywhere recognised that for the speedy economic development of India one thing in particular is everywhere needed—abundant supplies of cheap capital. This want can be supplied in part from within, and very largely from abroad. The Indian Currency Committee in recommending open gold mints and a gold currency and standard for India (Section 54), freely recognised that . . . "with the growth of confidence in a stable "exchange, capital will be encouraged to flow freely into India for the "further development of her great natural resources" . . . (*vide*

Section 70). The India Office in recent years by its lax management and perverse policy of—

(*a*) encouraging the further use of rupees,

(*b*) checking the inflow of gold into India,

(*c*) weakening the gold standard reserve,

has hindered the establishment of a gold currency in India, and delayed the growth of confidence, with the result that the inflow of large supplies of cheap capital from outside has been very slow in coming.

(2) By withdrawing substantial portions of India's Treasury balances and gold standard and paper currency reserves, the India Office has further destroyed public confidence in the official management of India's currency and finances. These withdrawals have amounted to the huge total of 40,000,000*l*. Of this immense sum, nearly one-half might have been employed in India to the great advantage of the country. Thus, if the 3,000,000*l*. of the paper currency reserve, and the 17,000,000*l*. of the Treasury balances which were invested and lent out in London had been invested and lent out in India, as they might very well have been, then Indian interests would have benefited materially.

(3) By disposing of Councils Drafts in unlimited quantities at rates well below specie (gold import) point, the India Office has failed to secure the best possible prices for the rupees that it has auctioned on India's behalf; and to the extent of the difference between the prices accepted and the prices obtainable, India has suffered a direct monetary loss.

(4) Moreover, the strange obsession under which the India Office appears to be labouring, namely, that sales of Council Drafts are, to quote Mr. Montagu's words in the House of Commons on the 30th July, 1912—

> " an indispensable factor of British Indian trade, and it would be
> " difficult to imagine how British Indian trade could be carried on
> " without them . . . trade would be brought practically to a
> " standstill if these Bills were not issued "—

this amazing exposition of what the Under Secretary of State for India described as

> . . . " a well-known economic and financial practice," . . .

seems to indicate that Mr. Montagu and the Office of which he is the spokesman, are both unfamiliar with some of the elementary features of international finance. Needless to say, British Indian trade would continue to develop as rapidly as hitherto were Council Drafts abolished to-morrow and never heard of again. But that such ridiculous statements should be put forward officially in the House of Commons, and that the India Office should conduct its sales of Council Drafts as though it believed them to embody some profound economic truth are the severest condemnation of India Office finance that has yet been made public.

(5) There can be little doubt that, quite apart from the material losses that India has suffered by the unsatisfactory management of her finances and currency in London in recent years, the wholly unnecessary removal of substantial portions of her treasury balances and monetary reserves has seriously affected British prestige and influence in India (and possibly elsewhere) by giving grounds among the educated classes for the belief that, in financial matters, Indian interests are liable to be subordinated, if not not sacrificed, at the suggestion or recommendation of powerful monetary interests in London. It is of the utmost importance that this impression should be removed.

## PART VII.—"The suitability of the financial organisation and procedure of the India Office."

(1) The financial organisation and procedure of the India Office in matters relating to Indian currency and finance appear to me to be in need of radical changes. The organisation is defective, and the procedure obsolete and unsatisfactory.

(2) In the preceding parts of this Note various defects of procedure have been indicated. These may be summarised as under :—

(*a*) Grossly swollen cash balances have been held in London, amounting on one occasion to close upon 18,000,000*l*. A floating balance of 3,000,000*l*. should be sufficient for all legitimate purposes.

(*b*) The weekly auction of token coins, the supply of which rests wholly and solely in the hands of Government, belongs to the days of open silver mints, and is clearly obsolete. As well might the Royal Mint in London hold weekly auctions of sixpences, shillings, half-crowns, &c. Token currency should be issued at one fixed rate in relation to the principal standard coin—the sovereign.

(*c*) The procedure which has transformed the Finance Department of the India Office into the principal Eastern Exchange Bank in London is unquestionably an unhealty growth that should be cut away forthwith. It is no part of the Secretary of State's duties to play exchange banker for the benefit of either European buyers who desire to lay down funds economically in India for the easy purchase of Indian products, or certain sections of the export trading community in India who want to sell their bills to the local exchange banks at the lowest and most favourable rates for themselves. Council Drafts should be rigidly confined to the sum required for the Home charges, and should be allotted to applicants *pro rata*, at a fixed rate of exchange—in India's interest, the highest possible.

(*d*) So, too, the procedure which has transformed the Secretary of State for India into one of the chief moneylenders in the world, should, in my opinion, be at once brought to an end. It is no part of the Secretary of State's functions to withdraw colossal sums of State money (of which he has not the slightest legitimate need), from India to London, only to find himself lending the money out to private borrowers in London in such profusion that—to quote Lord Swaything's words in the House of Lords on the 14th November, 1912—"It was well known that so large were the "amounts lent at one time this year by the India Council that there was a scarcity "of the securities (which the India Office demanded against loans) among the "approved borrowers, and the India Council therefore lent large sums to clearing "banks at lower rates than they could have lent them to the approved borrowers "supposing that there had been more securities available." The whole of this business lends itself to the severest condemnation.

(*e*) The removal of a substantial portion of the paper currency reserve and the bulk of the gold standard reserve from India to London is a wholly wrong procedure, in my opinion. The investment of 18,000,000*l*. of these Indian Reserves in London in British securities is a further step in the wrong direction, in my belief, and one calculated to cause very grave embarrassment to London as well as to India in the event of war, or of a serious financial or economic crisis.

(3) The suitability of the financial organisation of the India Office to the work it is called upon to perform may be gauged to some extent by the way in which that work has been carried out. The public have no opportunity of surveying that work as a whole, but certain portions of it have recently come to light, and have caused amazement in many quarters. Thus :—

(*x*) *The Silver Purchasing Business.*—The delay in making the recent purchases of silver for replenishing the token coinage (everybody measured up the situation more accurately than the India Office, apparently), the unbusinesslike seven year's silver contract with the Bank of England, the grave breach of that contract at the instigation of Messrs. Samuel Montagne and Co., the great loss of prestige and of Indian money involved in the whole transaction, these things have greatly shaken public confidence in the India Office's business capacity, and have created a very bad impression in India.

(*y*) *The Money-lending Business.*—This business appears to have been conducted on extraordinarily unbusinesslike lines. The India Office's loans to approved borrowers have been usually made for periods of three to five weeks, and this in spite of the fact that the India Office has frequently held £5/10,000,000 (sometimes more) in excess of all possible requirements. Instead of three to five weeks, many of the loans might have been made for three to five years without any likelihood of the money being required. (Indeed, some of the regular borrowers of India Office balances have been receiving loans almost continuously for over five years!) The only effect of giving the same borrowers the same money over and over again on loans for periods of three to five weeks appears to have been to have lost for India the higher rates of interest which loans for longer periods would have commanded, and to have made a present to the borrowers of long-period loans on short-period rates of interests. It is not surprising that in the scramble for the 14,000,000*l*. of Indian money which the India Office at one time lent out to private borrowers, the supply of suitable securities in England ran short, and the India Office decided therefore to give several millions to the leading London bankers on no security at all! Borrowing 10,000,000*l*. from the India Office at 2½ per cent. and depositing securities there against that yielded 4½ per cent. would yield the lucky borrowers about 200,000*l*. per annum—probably the most easily earned 200,000*l*. per annum in the United Kingdom or anywhere else.

(*z*) *The Money Borrowing Business.*—This appears to have been conducted on even stranger lines than the money-lending transactions. The larger the unrequired cash

balance in London, the greater the difficulty in finding borrowers in London to take all the spare millions sterlings off the India Office's hands, the more determined the India Office seems to have been to preserve unbroken its regular habits of borrowing money in London, both temporarily and permanently, on behalf of the Government of India. Thus in 1910, with a cash balance some millions in excess of actual requirements, 5,000,000*l.* was borrowed temporarily. In 1911, with an opening balance of 16,696,990*l.* no less than 4,500,000*l.* was borrowed temporarily, the closing balance for the year being raised to 18,390,130*l.* ! In addition to the above temporary borrowings, large quantities of permanent debt were also incurred. It does not appear to have occurred to the India Office (or, if the idea was considered, it must have been rejected), that some portion of the surplus accumulations of revenue of which the India Office held substantial balances in London, should be used for capital works in India, thus saving India the expenses of a new sterling loan. The possession of enormous sums of ready cash in the till in London, for which no legitimate employment existed in the immediate or distant future, seems to have afforded no reason to the India Office for desisting from its customary procedure of borrowing, temporarily or permanently; and so practically simultaneous lending and borrowing has been carried on with no benefit to India that I have been able to discover, or to anybody else, except the borrowers and lenders themselves.

(4) Mr. J. M. Keynes, formerly of the India Office, now Professor of Economics, Cambridge, and a Member of this Commission, has just published a book—"Indian Currency and Finance"—dealing with some of the matters now under consideration. The book was written before the appointment of this Commission, and is therefore a valuable expression of opinion by a well-informed and unbiassed exponent of economic theory who, in the nature of things, would hardly likely to be extravagant in his criticisms of India Office doings. Professor Keynes unfortunately does not tell us what he thinks of a Government Department who holds a floating cash balance 10,000,000*l.* to 15,000,000*l.* in excess of its requirements; nor does he, when dealing with India's reserves and cash balances, weigh the possible consequences to India of a crisis in London arising from (*a*) panic or (*b*) war involving Great Britain. For these reasons, his treatment of some portions of his subject appears to me defective. In many other matters, however, I find that Professor Keynes' views correspond exactly with mine, as may be seen from the following twenty brief expressions of opinion extracted from his book :—

(1) "At first the Government of India did not fully understand the nature of the new system . . several minor mistakes were made." (Page 1.)

(2) "The Government of India have drifted into a system and have never set it forth plainly." (Page 4.)

(3) "Prices have been rising much faster than is healthy." (Page 100.)

(4) "The methods of Government are exceedingly complicated." (Page 124.)

(5) "The Government of India's present system has no logical basis." (Page 172.)

(6) "The absence of appropriate arrangements constitutes a serious gap in the country's financial system." (Page 180.)

(7) "Part of the (paper currency) reserve should be lent out in India. Suitable security "for this purpose would be Government of India securities (which would have "indirectly the effect of increasing the market for rupee paper) and bills of "exchange of the highest class." (Page 60.)

(8) "This slight scare was more than sufficient to make Government lose their heads." (Page 133.)

(9) "Having once started on a career of furious coinage they continued to do so with little "regard to considerations of ordinary prudence." (Page 133.)

(10) "This time (1907–8) they (*i.e.*, Government) got what they deserved." (Page 133.)

(11) "They (Government) framed the policy as though a community consumed currency with the same steady appetite with which some communities consume beer." (Page 134.)

(12) "Exchange could not have fallen so low (25th November 1907) if the Government "had made gold freely available in India." (Page 136.)

(13) "So far from assisting the market, the Government were busy increasing the stringency "by taking off the market, week by week, rupees which for the moment they did not "in the least want." (Page 257.)

(14) "There are no high officials (in India) whose business it is to make finance the chief "study of their life. The Financial Secretaryship is an incident in the career of a "successful civilian." (Page 237.)

(15) "The statement made in answer to a question on this subject (Sale of Council Bills) "in the House of Commons (30th April 1912) by the Parliamentary Under-Secretary "was not quite correct." (Page 114.)

(16) "I do not think it has ever been thought out quite clearly (by the India Office) for "what precise purposes these (sterling) reserves are held." (Page 147.)

(17) "By the end of 1912 they (the cash balances in London) had sunk again to a more normal level." (Page 129.)

(18) "Further accumulations (of Treasury balances) in the hands of Government ought to "be put at the disposal of the Indian money market and not converted into "sterling." (Page 179.)

(19) "It is slightly shocking to discover that the Government broker, who is not even a "a whole-time officer, and has a separate business of his own besides his official "duties, is the highest paid official of Government with the sole exception of the "Viceroy." (Page 192.)

(20) "They (the India Office) renewed India bills when they could have very well afforded to discharge them." (Page 191.)

Professor Keynes throws the bulk of the blame on the Goverment of India, it will be noticed, rather than on the India Office. I cannot concur with this view. The India Office has—wrongfully, in may opinion—taken the management of many of the details of the working of India's currency and finance into its own hands, and must therefore be held responsible for blunders in matters of detail as well as in matters of general policy.

(5) That I am not alone in India in holding views of the India Office's financial activities the reverse of flattering to the department immediately concerned (the Bengal and Madras Chambers of Commerce are, I know, both satisfied that the management of India's finance and currency leaves nothing to be desired) may be gathered from a perusal of the files of the "The Times of India" since 1910. That well-known newspaper, it is everywhere recognised, deals with all matters with great sobriety and restraint; whilst on the subjects of Indian finance and currency it is far better informed than any other newspaper in India. The publishers of "The Times of India" have just issued in book form under the style of "Indian Currency and Finance" a reprint of a series of editorial articles dealing with many phases of Indian currency and financial questions. The articles are most valuable and should, I urge, receive the careful attention of this Commission. The conclusions to which the "Times of India" has come may be gathered from the following twenty comments which I have picked out here and there from the book:—

(1) "A species of dementia seems to have overtaken the administration of Indian financial affairs in London." (*Vide* page 51.)

(2) "Altogether indefensible." (Page 49.)

(3) "A reproach to England." (Page 39.)

(4) "The Council are unfit to discharge the important trust committed to their care." (Page 54.)

(5) "No such blundering and fateful incapacity has yet been disclosed as that now revealed." (Page 61.)

(6) "The greatest financial fiasco of modern times." (Page 64.)

(7) "A downright abuse of the system of effecting Government's Home remittances." (Page 86.)

(8) "A misuse of the credit of India." (Page 95.)

(9) "An intolerable and unfair burden on the public." (Page 69.)

(10) "A colossal blunder." (Page 97.)

(11) "It is impossible to conceive a more perverse system of currency finance." (Page 106.)

(12) "Government have gone out of their legitimate province." (Page 120.)

(13) "Great ineptitude has been shown." (Page 148.)

(14) "A gross injustice to the taxpayer." (Page 166.)

(15) "Finance gone crazy." (Page 54.)

(16) "Many irregularities and abuses are associated with the present system." (Page 209.)

(17) "A most unbusinesslike system and, in our judgment, indefensible." (Page 213.)

(18) "Impossible to imagine a more unbusinesslike procedure." (Page 224.)

(19) "The system as lately conducted is wasteful and expensive in many ways." (Page 150.)

(20) "A thorough revision of the system is called for." (Page 86.)

Comments of this character from the "Times of India"—one of the leading newspapers in the East—clearly indicates something "rotten in the state of Denmark."

(6) An organisation that produces results such as those described in the preceding paragraphs obviously needs remodelling—lock, stock, and barrel.

The Financial Department of the India Office and the Financial Committee of the Secretary of State for India's Council are both out of touch with modern economic thought and the current requirements of, and obligations to, modern India. The system which places the office management of matters financial and monetary relating to India in the almost arbitrary control of permanent officials of no great seniority who have never seen India, and whose sympathies are therefore mainly with their own immediate environment, calls for early reform. The more so as, in recent years, there has been an increasing tendency to over-rule and ignore the "man on the spot." Thus, the presence of two leading London bankers (with no personal knowledge of India) on the Finance Committee of the Secretary of State's Council, one of them being Chairman of the Committee, and the absence on that Committee of a single Indian or Anglo-Indian banker or experienced European official of the Government of India has resulted, as might perhaps have been expected, in the currency and finances of India being managed in accordance with practices acceptable to London joint stock bankers, and mainly, if not wholly, for the benefit of the London money market. The result has been a serious jeopardising of the reputation of British rule on its financial side, and a corresponding loss of prestige and influence for good which must now be recovered with the least possible delay.

(7) The equity of debiting the cost of the upkeep of the India Office to Indian revenues has been defended on the grounds that—

> . . . "[the India Office] is mainly concerned with all sorts of "banking and commercial activities, the management of debt, the sale "of bills of exchange" . . . &c.*

It is essential, therefore, that if no further questions are to be raised regarding this debit to Indian revenues, that all the banking and commercial business, &c., undertaken by the India Office shall be conducted solely in Indian interests, and not mainly for the benefit of a section of the London money market.

## PART VIII.—"Recommendations."

(1) The recommendations of the Indian Currency Committee made fourteen years ago and accepted by the Secretary of State and the Government of India in 1899, should now, I consider, be carried out in their entirety. I urge that—

(*a*) The right of free coinage should be restored to India, and an open gold mint established at Bombay forthwith.

(*b*) British sovereigns should be coined at the Bombay gold mint. If this be absolutely impossible, Indian sovereigns of exactly the same size, weight, and fineness as British sovereigns should be issued.

(*c*) The Government of India should actively encourage the use of gold as currency, instructing their officers throughout the continent accordingly, and discharging all obligations possible in gold.

(*d*) Beyond a small regular coinage to replace wear and tear and export out of India, no fresh rupees should be coined until the proportion of gold in the currency is found to exceed the requirements of the public.

(*e*) Profits on the coinage of silver and other token coins to be kept quite apart in gold and carried to a special gold reserve. The gold reserve to be retained mostly in India, and only a minor portion to be invested—in Indian securities.

(*f*) Sterling borrowing to be avoided as far as possible.

(2) In order that a *pucca* gold currency system of the British type (which Professor Dunning MacLeod before the Indian Currency Committee of 1898

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* *Vide* page 108 of Professor Leonard Alston's "Indian Revenue and Taxation," published by Macmillan, 1910.

declared to be the best in the world), may be established in India with as little delay and as effectively as possible, I further urge that—

(*g*) Council Drafts be strictly restricted to the sums required to meet the Home charges, and additions to the token coinage.

(*h*) Council Drafts be drawn at one uniform rate. They are simply sales in London of sovereigns or rupees delivered in India, and the cost to the public should be only a shade below the actual expense of shipping sovereigns to India—in other words, a trifle below specie point. For the India Office to accept any lower rate is an altogether needless sacrifice of Indian revenue.

(*i*) The treasuries at Delhi and Karachi be included with those of Calcutta, Bombay, and Madras as treasuries on which Council Drafts can be drawn.

(3) The above recommendations, if carried out in their entirety (and all but one are essential), will ensure the establishment in India of a first-class gold monetary system, and tend to raise India's financial status in the eyes of the world, and so facilitate the creation and inflow of cheap capital so necessary for the country's advancement. As soon as sovereigns are everywhere in circulation, and 30,000,000*l.* in gold is held in the paper currency reserve, the gold currency reserve might be abolished and the money therein employed on reproductive works.

(4) With regard to the location and management of the general cash balances and reserves, I urge that—

(*j*) An effort be made to keep the Government of India's floating balances down to 10,000,000*l.*, of which about 3,000,000*l.* might be kept in London.

(*k*) As much of the floating balances as can be spared be placed at the service of the Indian public through the agency of the Presidency Banks and the Indian money market.

(*l*) The gold standard reserve ought to be held entirely in India. As the realisation of 16,000,000*l.* worth of securities would no doubt somewhat inconvenience the London money market, I suggest that only 9,000,000*l.* be disposed of, gradually, and the proceeds shipped to India in gold, the remaining 7,000,000*l.* now lying in securities being retained, in securities, in London.

(*m*) The paper currency reserve, which is purely an Indian concern, should be kept entirely in India; and so far as the reserve be invested in securities, such investments should be made in Indian securities.

(5) The above recommendations, if carried out in full, will add greatly to India's financial strength, increasing confidence in the sterling value of the rupee, giving scope for the investment of Indian savings in Government securities, and affording cheap capital for temporary use of the Indian money market in financing the crops, &c.*

(6) With the object of adapting the financial organisation of the India Office more closely to present-day requirements, I would suggest that the Finance Committee of the Secretary of State for India's Council should always include one senior civilian officer of at least 20 years' service in India and some experience of Indian financial matters; one Anglo-Indian banker of Calcutta or Bombay experience, and one (and only one) leading London banker. With the work of the Finance Committee confined to its proper dimensions and scope (as indicated in paragraphs 1, 2, and 4 above), a finance committee of three should be sufficient to keep the permanent officials of the Finance Department of the India Office on the proper lines.

(7) In concluding this Note, I desire to point out that most of the developments at the India Office to which objections have been taken in India and in Parliament have arisen during the last six or seven years—

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* *See also* my "Britain's Dilemma," published by Messrs. P. S. King and Son, Westminster, London, S.W.

since the policy of reducing the Indian civilian element in the India Office and on the Finance Committee of the Secretary of State's Council has been put into operation. Autocracy in India no doubt has its defects, but over 20 years' experience of India has convinced me that autocracy practised by men on the spot, closely familiar with the problems which confront them, exhibits advantages over autocracy ruling at the India Office and guided by men but few of whom have any personal knowledge of India and its peoples. In the case of the Finance Department, the absence of a senior experienced Anglo-India official from the Finance Committee of the Secretary of State for India's Council has synchronised with a period of currency and financial management that, from the point of view of India, can only be described as unsatisfactory in the extreme. India's monetary reserves and Treasury balances have been raided in a way, and to an extent, unheard of during the whole history of Britain's connection with her great Eastern Dependency. The consequences have been a blow to Britain's reputation for fairplay in matters financial, the effects of which it will take some time and care to remove. Whether these mishaps would have been avoided had the Finance Committee included an experienced Anglo-Indian civilian and a Bombay or Calcutta banker it is impossible to say. Certainly the currency and financial management could hardly have been more unsatisfactory.

(8) The conclusion to which I am forced, therefore, is that in reorganising the financial machinery of the India Office, the policy of removing or excluding the influence of the experienced Indian official should be seriously reconsidered. With no axe of any kind to grind, and accustomed by the duties of a lifetime to hold the scales evenly between many conflicting interests, the senior Indian civilian can bring an experience and influence to bear invaluable to those in England responsible for the upright and progressive administration of India. And if, with the experienced Anglo-Indian administrator, be associated a leading London banker, and a senior banker from Bombay or Calcutta possessing an intimate knowledge of the customs and requirements of the most advanced and go-ahead sections of the Indian commercial and financial communities, a finance committee of three can be formed who will be able to give to the Secretary of State for India the best possible advice on all matters relating to the management of India's currency and finances.

(9) Lastly, I would urge that the Government of India be allowed much greater freedom of action in matters of purely local concern than has recently been the case in connection with the management of India's finances and the development of India's currency. The Secretary of State for India in Council having laid down the general lines of policy that should guide the Government of India, the Governor-General in Council should, I submit, be allowed the fullest discretion in the actual carrying out of that policy. The subversion of this principle and the uncalled for and unnecessary exercise of authority by the India Office, appear to me largely to explain the circumstances that have led up to the present inquiry. Only by giving the Governor-General in Council the utmost authority and power, consistent with a due observance of the broad principles of government laid down by Parliament through the Secretary of State, can we hope successfully to administer and carry forward the further development of the Continent of India.

M. DE P. WEBB.

# APPENDIX XXII.

## MEMORANDUM OF EVIDENCE SUBMITTED BY MR. MARSHALL F. REID, C.I.E.

### (A.)—*Government Balances and Council Bills.*

1. My 25 years' experience in India has been chiefly in connection with the import and export trades, and also the finance and management of cotton mills. Most of my time has been spent in Bombay, but I have been in Calcutta for three years, Madras for two years and a half, and Delhi for 18 months.

2. The average rate of interest in the commercial centres of India has not been immoderately high, especially in recent years when the country has been accumulating much wealth.

3. Presidency Bank rates average a little over 5 per cent., but they are not always effective, especially in the off season—95 is about a normal price for 3½ per cent. Government Paper—Good Municipal and Port Trust 4 per cent. bonds are usually above "par," and prosperous Industrials can get public deposits for 12 months at 5 per cent., and sometimes 4½ per cent.

4. But year after year we have to deal with a very stringent money market during two or three months, and the effect of this stringency is to restrict the movement of trade and to create a false level of prices.

5. There must, of course, be a considerable variation in the value of money owing to the busy and slack seasons being so clearly defined; but it should be possible to minimise the extreme stringency which prevails at certain times of the year by utilising existing resources to better advantage.

6. I do not think it will be disputed that a bank rate of 8 per cent., with Bazaar rates considerably higher, must be very injurious to the trade and industry of India, and these high rates come at a time when interior transport facilities are at their best.

7. Now it is noteworthy that Government balances have a habit of steadily increasing during the busiest months.

The balances during the last three years were:—

| | 1911. | 1912. | 1913. |
|---|---|---|---|
| 1st January | Rs. 13.17 crores | 14.61 | 21.98 |
| 1st February | Rs. 14.99 „ | 15.17 | 24.76 |
| 1st March | Rs. 17.16 „ | 15.78 | 26.06 |
| 1st April | Rs. 22.35 „ | 18.44 | 28.93 |

It will thus be seen that, while the money market was going through an anxious time in the early months of 1913, and trade was being seriously hampered, Government were taking an increasing amount of money out of the market, and locking it up in the treasuries.

8. These balances were, it is true, available to the market through Council Drafts, but those who had access to the London market, and therefore to Council Bills, were restricting their drawings on London, in view of the state of the London market. (It should noted that during the twelve months ending with March, 1913, Council Drafts were sold to the extent of over 25,000,000*l.*, whereas the Budget estimate was just over 15,000,000*l.*; yet notwithstanding the free sale of drafts, the Government cash balances were unusually high.)

9. As Government apparently had no power to release these balances, excepting through Council Drafts, they created an artificial money market which had most injurious effects on trade and industries.

10. I say Government apparently had no power to release these balances, because, in point of fact, they did not make any attempt to do so, and I am told they declined a request for a loan of 50 or 100 lacs of rupees on the security of Government paper.

11. If it is admitted, as I think it must be, that it is against the interests of India and Indian trade for Government to lock up increasingly large sums of the country's money (which for one reason or another they are unable to release) just at the time when these funds are most required for moving the trade of the country, it will be well to consider what existing conditions and practices cause this undesirable situation, and what steps should be taken to remedy matters.

12. It is remarkable, and I think it must be quite unsound, that the balances and currency of India should be under the control of authorities in India and London, who may be said to be almost isolated from the money markets and the chief commercial centres of India.

13. To a business man there would seem to be only one place from which to control and direct any market, viz., the market itself—and if, as I think, this must apply with special force to the money market, then the control and management of the available finances of India—and I venture to suggest of the currency of India—should be located in the chief money markets and commercial centres in India.

14. And it naturally follows that such management and control should be placed in the hands of those who have been trained in the market, and in the atmosphere in which they are called upon to operate. It can hardly be suggested that those who have been accustomed to control finance and currency in India have had much opportunity of qualifying themselves in this respect.

15. I should like here to say that I have the very greatest admiration for the ability, integrity and versatility of the officers of the Indian Civil Service, and I have had many opportunities of seeing these qualities used to the great benefit of the country they are serving.

16. Therefore what I may say in seeming disparagement of work now done by the Finance Department is in no way aimed at the officers in that Department, but at the system under which they are called upon to work.

17. I suppose the primary duties of the Financial Department of a country are the collection and expenditure of revenue; and the training which Indian officers have during their service in the districts and in the revenue departments eminently qualifies them for these duties.

18. But their training in connection with bankimg and currency can very rarely begin before they hold some important post in the Finance Department.

19. And even when they get into this Department it is noticeable that they are rarely called upon or permitted to settle down in it, and make it their career, as the more senior men may be asked to fill up a Lieutenant-Governorship, or other high executive post, and the less senior ones may see their way to quicker promotion in other departments.

20. I do not complain of this, as it is only natural that every man should try to direct his career on to the lines which promise most usefulness and most distinction, but I complain of the system which calls upon the officers of a department to perform duties for which they have not had opportunity to qualify themselves.

21. Anyone acquainted with the inner workings of large banking and commercial concerns must know that the strength of these concerns lies largely in continuity of management, and in the traditions which that continuity has established. Each officer as he advances from grade to grade has increasing opportunities of benefiting from the experiences of his predecessors, and on the top of these experiences and traditions he erects his own original work.

22. I have little doubt that Lord Rothschild and Mr. Hambro had these considerations in their minds when, in 1898, they expressed their opinions to the effect: "That the currency of a country can be better managed by a bank than by a government." If the finance and currency of India are to be dealt with in the best interests of India, it seems to me that the control and management should be entrusted to an organisation which has the

advantages of continuity of traditions, and of special training for the purposes for which it is constituted, and it should be located in the commercial centres.

23. I do not propose to attempt to construct this organisation. If it were a Government department it would have to be a separate and independent one, and would have to possess that intimate touch of local conditions on which bankers and merchants rely, and for want of which Government departments must so frequently arm themselves with suspicion, and distrust. and delay.

24. But whether it be a Government department, or a separate bank working in conjunction with the Presidency Banks, or an Imperial Bank absorbing the Presidency Banks, it should be constructed with a view to building up continuity and traditions, and giving its officers full scope for their abilities.

(B).—*Gold Standard Reserve.*

1. Among the measures recommended by the Commission of 1898 were the coinage and circulation of sovereigns and the creation of a special reserve in gold in which the profits on the coinage of silver should be accumulated. In referring to them, I desire not to go beyond my own experience, and the conclusions I have been able to draw therefrom.

2. In actual practice the recommendation of the 1898 Commission to create a special reserve from the profits on silver coinage has been made a prominent feature, and a separate gold reserve is generally regarded in India as a thoroughly sound measure. It is realised that like all insurance operations it must involve some loss of revenue, and the opinion I have generally heard expressed, and with which I agree, is that security and confidence are not dearly bought at some considerable loss of interest on the accumulated reserves.

3. I presume the authorities, in disregarding this recommendation, have relied upon the fact that all Government's resources were behind them, and upon the belief, no doubt so far justified, that if a crisis occurred these resources would pull them through.

4. Speaking as one of the mercantile community who is deeply interested in the exchange value of the rupee, I consider it of paramount importance that the authorities should gain the confidence of the public in the policy they are pursuing, and in the measures they are ready and able to take to minimise the effects of a crisis: But experience proves that the existing methods have not gained the public confidence in their ability and willingness to combat a crisis.

5. The fall of T.T. Exchange to 1/3 11/16 in 1907—the anxious time the country went through in 1908—the uncertainty as to whether the authorities would take the steps they eventually did to maintain the exchange level at that time—the suspicion which undoubtedly exists that the maintenance of exchange is at times subordinated to other interest in the handling of Council Drafts—all these tend to breed want of confidence in existing methods; and though the conclusions which the public have arrived at may not be fully justified, this lack of confidence is very real, and those who are engaged in exchange operations are on the look out to secure themselves, even at some sacrifice, upon the least sign of uneasiness in financial conditions affecting India.

6. It must, I think, be very desirable that the authorities should gain the public confidence that their policy is sound, and if they do not intend to carry out the whole policy recommended by the 1898 Commission, they should formulate and declare their alternative policy.

7. Until this policy is formulated and established any talk of diverting the profit on rupee coinage to other purposes should be avoided. We have heard various amounts up to 20,000,000*l.* mentioned as limits, and now I hear 25,000,000*l.* spoken of. But it seems to me dangerous to forecast what the requirements in this respect may be in connection with a country like India which has doubled its trade in 15 years.

(C).—*Gold Coinage and Circulation.*

1. Whereas the recommendation of the 1898 Commission to maintain a gold standard reserve appeals to me, I do not find myself so enthusiastic about the Commission's recommendations as to gold currency and a gold mint. But the two are on rather a different footing; the gold standard reserve was recommended to insure security, whereas gold currency was recommended in anticipation of a demand for gold coins, and the gold mint was recommended to assist in meeting that demand.

2. If experience showed that gold currency was the best and most economical, and if the country showed a desire for this form of currency, these measures would be the natural ones to adopt.

3. I am aware that sovereigns are reported to be used in several districts to a considerable extent; but my opinion must naturally be largely influenced by my own experience, which is, that though sovereigns have been available in large quantities for some years, they are tendered to a very small extent in payments to my firm at the different ports; my enquiries lead me to believe that this is the experience of most other firms in the Presidency towns.

4. Seeing that the traders in the Presidency towns may be taken to be the most enlightened, we may fairly assume that they do not use the gold coinage which is available to them, because they do not consider it is the best and more convenient form of currency.

5. There must always be in India a vast number of transactions for which rupee currency is necessary. But for the larger transactions the people have the option of silver or gold coins, currency notes, and, to some extent, cheques.

6. Of these the most convenient and economical form of payment is, of course, the last named, and a distinct increase in cheque payments has been noticeable in the Presidency towns with the opening of numerous local banks.

7. Payments by currency notes come next in these respects, and by far the greater proportion of the balance of payments is made in this form. We may take it that the enlightened people of the towns know what they are about, and it is obvious that they are satisfied as to Government's ability to meet its obligations in connection with the note issue.

8. The increase of cheque and note transactions must have effected considerable economy in the country's currency, and the Presidency towns, consciously or unconsciously, have been adapting themselves to more scientific and less wasteful methods than formerly prevailed.

9. If this change is sound and economical, I do not think it can be wise to give gold coinage and circulation such a prominent place as they have lately been assigned in several quarters. In so far as gold coins are replacing token rupees in the currency, they must be making for security; but I find it difficult to see any advantage in replacing currency notes by gold coins, and I see a real evil in the encouragement of hoarding. To aim at stimulating the steadily increasing demand for currency notes must surely be a more ideal policy.

10. The proper place for gold seems to be the reserves. Extended use of notes would facilitate the growth of the note reserve in gold, and if the authorities would aim at satisfying the people that ample reserves would be created and maintained in India's interests, I do not think the people would be slow to respond.

11. In my experience the people of India are willing learners, especially where their own interests are concerned, and if they were satisfied that their savings were as secure in the form of investments in Government and other securities, or in currency notes, as in the more tangible form of gold and silver coins, they would gradually adapt themselves to better methods.

12. It should be borne in mind that it has been nobody's special business in the past to educate the people in these matters, but this would be one of the duties of a special organisation controlling the currency and finance of India.

## (D.)—*Hoards.*

1. The Commission of 1898 accepted the fact of the vast hoards in India, and, of course, they are wasteful both from an economic and a currency point of view.

2. I should like to suggest to this Commission that some serious attempt should be made to attract this mass of unproductive wealth from its hiding places and convert it to more useful purposes; and I do so with more confidence, as the continued prosperity of India must in ordinary course tend to aggravate the situation, owing to the increasingly large quantities of the precious metals which are finding their way into India.

3. It is true that India has herself provided sufficient capital for all the developments which have recently taken place, for we find that out of 210,000,000*l.* sterling which the United Kingdom provided for public investment at home and abroad during 1912, less than 3,750,000*l.* went to India.

4. But it is equally true that the provision which Government have found themselves in a position to make for the all important item of railway development has proved lamentably inadequate, and it cannot be gainsaid that India is far behind what she might be in industrial progress.

5. It is admitted that much larger provision for railway development must be made in the near future in order to make up for past deficiencies in this respect, and it is generally conceded that the demands of the railways will continue on an increasing scale. Irrigation will also continue to make large demands on the resources of the country, and it is only to be expected that with increasing civilisation and enlightenment will come steady progress in industries.

6. So much for the needs of the country. On the other side we have the question of financial provision to meet those needs, and it will be remembered that it was argued in 1898 that a fixed exchange would cause a flow of foreign capital to India.

7. This capital may be available, but even though it were, it must clearly be to India's best interests that she should use her own vast unproductive wealth rather than go to the expense of borrowing other people's money: and that this wealth is increasing may be gathered from the fact that during the three years 1910 to 1912 she claimed payment in gold from her trade debtors to the extent of over 60,000,000*l.* sterling, after satisfying her appetite for her usual imported commodities.

8. Signs are not wanting that some of the country's profits are either coming out of hoards or not going into them, and we are told that the co-operative banks are attracting some of the money of people up-country, while the local banks get the credit of obtaining some of their deposits from hoards. Feeder railways have also proved another means of attracting Indian money into new channels, but we have yet to learn what would be the effect of a systematic campaign against the time-honoured habit of hoarding.

9. Distrustful as the people of India no doubt are, by nature and by tradition, of any security short of possession, they are just as anxious to make money as the people of any other country; and there is every reason to suppose that, if investments—of which the security was undoubted—could be brought to their doors in convenient forms, they would gradually realise the uselessness of hoarding.

10. As it has not in the past been anyone's particular business to educate India as to the best form of currency to use, so it has been nobody's special duty to teach her the best use to make of her wealth. But this education would be a natural part of the work of an organisation whose sole responsibilities were in connection with the banking and currency of the country.

11. Among investments regarding which it ought not to be difficult to assure the public would be government paper and port trust and municipal bonds; indeed, the amount of such investments held by the up-country public is very considerable, and is steadily increasing. Raising the amount of the maximum deposit in savings banks (as has recently been proposed in France to attract "hoards") and the extension of the savings bank system

throughout the country are other possible methods; and I cannot imagine an investment which would appeal more to the Indian people than railway bonds, of which the security is so evident.

12. The practice which has recently been resorted to of providing for railway capital expenditure from revenue—or from accumulated cash balances which is really the same thing—on a very large scale, seems to me to be an economic evil. In so far as the money so appropriated represents ordinary budget surpluses, the practice is perhaps not open to objection; but when surpluses run into very abnormal figures as in recent years only to be accumulated in the Treasury balances, and then to be made use of for capital expenditure, the system seems to require revision.

13. Such surpluses indicate an excess of revenue for Goverment's ordinary expenditure, and if India can bear the cost of providing this excess revenue to such an extent, it looks as if she ought to be able to borrow for capital purposes to a very large extent.

14. Surely a system of raising loans for railway capital requirements and paying interest thereon would be a wiser policy than leaving urgent railway developments to the chance of large surpluses being available, and curtailing these developments, however urgent, when adequate surpluses do not exist.

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## APPENDIX XXIII.

### NOTE OF EVIDENCE SUBMITTED BY MR. H. F. HOWARD, C.I.E., I.C.S., COLLECTOR OF CUSTOMS, CALCUTTA.

### I.—*Location and Management of the General Balances of the Government of India.*

1. The facts regarding these balances and the causes which have been responsible for their growth during the last four years are stated in considerable detail in the memorandum on India Office balances which was recently presented to Parliament* and in the papers which have been prepared for the Commission by Mr. Abrahams.†

2. Briefly the main points for consideration are:—

(*a*) Have the balances been unduly high?

(*b*) Should the portion of the balances not required for the more immediate needs of Government be held in England or India?

(*c*) Have the Secretary of State's balances been used in the most profitable manner?

3. With regard to (*a*) it is obviously necessary to consider the amount of the balances as a whole, whether held in England or India, and it is not clear that this point has not been overlooked in some of the recent criticisms regarding the large balances held in England and the manner in which these have been utilized. The following figures for the balances as a whole are taken from statement B of Mr. Abrahams' memorandum (Appendix II., pages 74-5.)

Total closing balance in £1,000s. for the year ending 31st March:—

| — | Budget. | Actuals. | Adjusted Actuals. |
|---|---|---|---|
| 1909 - - - | 15,959 | 18,219 | 13,744 |
| 1910 - - - | 15,591 | 25,074 | 18,725 |
| 1911 - - - | 17,735 | 30,264 | 26,151 |
| 1912 - - - | 21,221 | 30,670 | 27,526 |
| 1913 - - - | 19,590 | 27,917 (revised) | — |
| 1914 - - - | 16,639 | — | — |

* Cd. 6619.

† *See* Appendices I. and II.

The figures for adjusted actuals exclude :—

| — | Received from loan issued towards Capital requirements in the following year. | Portion of Opium surplus specially held towards discharge of temporary debt. |
|---|---|---|
| 1908–09 - - - | 4,475 | — |
| 1909–10 - - - | 6,370 | — |
| 1910–11 - - - | 2,210 | 1903 |
| 1911–12 - - - | — | (1,903 + 1,241 =) 3,144 |

4. In the light of subsequent events it is clear that it would have been possible either to reduce the amounts borrowed or to discharge the outstanding temporary debt at an earlier date. As, however, has been explained by Mr. Abrahams, excess receipts from bills and transfers can never be counted on until late in the financial year when the result of the monsoon and the trade and agricultural position are known, whereas the favourable opportunity for carrying out loan transactions usually occurs, if at all, early in the financial year; it follows that the proceeds of excess sales of bills and transfers cannot ordinarily be used for the avoidance or repayment of debt until the year after that in which the excess sales have taken place. The possibility of the excess sales to which Mr. Abrahams refers is of course directly contingent on an improvement of budget anticipations in the financial position of the Government of India. It is usually impossible to gauge this with any reasonable approach to certainty whether it occurs in the form of increased revenue receipts or of lapses in capital expenditure or otherwise until late in the year or even towards its close. At the same time while it may be admitted that the postponement in the discharge of the temporary debt proved to be unnecessary, the anticipatory borrowing by which the balances have been swelled can be justified on more general grounds to which I refer below.

5. It will doubtless be urged that even after the exclusion of these items the accumulation is very largely in excess of the intention when the budgets were framed. The main heads under which the improvement occurred have been :—

| — | 1909–10. | 1910–11. | 1911–12. |
|---|---|---|---|
| | £ | £ | £ |
| Revenue surplus - - - - - - - - | 1,470 | 6,143 | 5,732 |
| Lapses in capital expenditure on railways - - | 1,617 | 3,419 | 1,688 |

The more important fluctuations leading to increases in the case of the revenue heads have been those occurring under :—

| | £ | | £ | | £ | |
|---|---|---|---|---|---|---|
| Opium - | +1,119 | (1909–10) | +2,871 | (1910–11) | +1,680 | (1911–12) |
| Railways net receipts - | −689 | „ | +1,251 | „ | +1,896 | „ |

6. In 1912–13, out of a total revenue improvement of 7⅔ million pounds anticipated in March last, opium was expected to contribute nearly 1½ million pounds, and the railways 3⅔ million pounds. In the case of opium the principle has been accepted of budgeting only for receipts based on a certain normal standard and of treating the realised revenue in excess of this amount as "special" to be utilised for certain specified purposes. Under railways the experiences of recent years indicate that Government must always be prepared for large variations. Thus, while the railways paid 5·89 per cent. in 1912–13, the return in the three preceding years was 4·99 per cent., 4·67 per cent., and 4·48 per cent., while in 1908–09 the railway system was actually worked at a net loss to the State after taking into account the interest payable by Government on the railway debt.

7. It has been thought in some quarters that too large a margin has on occasion been left on the side of safety in the estimate under this and other heads. This is a matter on which divergent opinions may be held but on

which it is necessarily most difficult to adduce any convincing proof on one side or the other.

As I have not been personally associated with the preparation of a budget in recent years I do not propose to attempt any detailed analysis of the improvements in the estimate under individual heads. Moreover, I do not consider that such analysis would serve any useful purpose, as in my opinion the holding of balances larger than those required for the transaction of current business can be amply justified on more general grounds.

8. It is of course necessary in the first place to keep in hand a sufficiency of money for the ordinary transactions of Government, and experience has shown that certain minima are required for the purpose. In India the figure is about 12 or 12½ million pounds, at home it is taken at 4 million pounds or somewhat more (*vide* section v. of Mr. Abrahams' memorandum (pages 8–10 of Appendix I.) and sections V. and IV. of the memorandum on India Office balances (Cd. 6619)). The budget must therefore provide in any case for a minimum closing balance of approximately the total of these amounts.

9. There is, however, a further aspect of the question. The ways and means programme of the Government of India is liable to be disorganised at very short notice by the occurrence of a famine, and this may result in large variations in the railway programme which must necessarily be a very serious matter as involving loss of efficiency and disregard of economy. It would therefore appear to be entirely legitimate in certain circumstances to budget for a closing balance in excess of the minimum figure, and to retain something in hand in a good year as a margin to enable us to avoid the uneconomical retrenchment on capital expenditure, &c., that would otherwise be necessary in an unfavourable year. In fact this course would be entirely consistent with the recommendations of the Mackay Committee* which considered that our borrowings should not be determined so much with reference to the needs of the moment as to the state of the market. We ought, in other words, to take advantage of times when money is cheap and to put it away till it is required. And this is for all practical purposes what has actually been done, as the following figures show :—

| | Price of Sterling 3½ per cents. | | Net Amount of Borrowings. | Provision for Railway Programme. |
|---|---|---|---|---|
| | April. | September. | | |
| | | | Million £. | Million £. |
| 1909–10 - - - | 98⅛ | 98 1/16 | 13 | 10 |
| 1910–11 - - - | 95¼ | 94¼ | 6½ | 10⅗ |
| 1911–12 - - - | 96½ | 94¼ | 1⅔ | 9½ |
| 1912–13 - - - | 94½ | 93 | ⅓ | 9+1½ |

10. It appears that in spite of an increase in the price which the Government of India has had to pay for their loans, and a great diminution in their actual borrowings, the amount provided for railways has been kept fairly steady, though at a level considerably lower than many of those interested in the efficiency of the railway administration consider sufficient. It is generally recognised (even by purists in such matters, who hold that it is not legitimate to budget for revenue surpluses in order to provide funds for capital expenditure) that the Government balances, whether built up by realised surpluses, or loan funds or of such items as Post Office Savings Bank deposits, may quite legitimately be drawn upon for such purposes. I would say then that such excess balances may be properly employed, firstly towards the reduction or avoidance of debt, and secondly as a security against the results of famine with its consequences of a reduction in councils and fall in exchange. It is hardly possible to place these objects in the order of relative importance which may constantly vary. At any time the second may of course become supreme. In normal times, however, the excess may suitably be employed in the reduction or avoidance of debt. In view of the growing demands for funds to finance railway development, the employment of the balances to extinguish existing debt (other than temporary debt) would merely involve the uneconomical course of borrowing with one hand while

* Cd. 4111.

paying off debt with the other, and it would thus seem, if these opinions are accepted, that the excess balances should be used for the avoidance of new debt, or in other words for capital expenditure. This is no doubt what the Bengal Chamber of Commerce have in view in a letter recently addressed by them to the Secretary to the Commission.* While entirely dissociating themselves from the various charges which have been made against the treatment of the large balances of recent years, they suggest that "a partial solution might "be found if transfers from revenue to capital expenditure were governed by "principles somewhat less rigid than those that are understood to prevail in "the Finance department." From what I have said it will, I think, appear that the views held by the Finance department are more in accord with the suggestion made by the Bengal Chamber of Commerce than the latter have realised, and it appears to me that the point about which a difference of opinion really exists is whether it would have been better to use the money at once or to spread the expenditure over a series of years. Here again it might be possible to suggest that the estimates on which the earlier programmes were based were somewhat overcautious and that larger sums might well have been allocated. On the whole, in view of the difficulty which has been experienced recently in borrowing any large sums, the course adopted does not appear to be open to any very serious criticism. It has been necessary to depend a good deal on the balances, and if a much larger programme had been framed in the first year or two it would have been necessary in subsequent years to drop to a much lower figure.

11. The next question for consideration is the best location for excess balances pending their ultimate employment for the avoidance of debt. Until the money is wanted the question is obviously one of investment. The view urged by certain critics is that being Indian money any excess should be employed in India in the interests of Indian trade. It is necessary in the first instance to challenge the principle on which this criticism is based. The money is held on behalf of the general taxpayer. If it is possible incidentally to use it to assist Indian trade, so much the better, but any assistance which involved the Government of India in loss would be an indirect subsidy at the expense of the general taxpayer and would not be legitimate. The first consideration is therefore how to make the most profitable use of the money. Subject to this condition, there is so far as I can ascertain nothing to prevent the Government of India from lending money through the Presidency Banks in India should funds be available and should there be a demand for accommodation. In the past the Presidency Banks have occasionally asked for loans and have been given them. For some years there have been no applications.

12. It has been said that, against 2½ per cent which is apparently roughly what has been received as interest in England, 3 or 4 per cent. could be made in India. The correctness of this statement is doubtful. Many of the larger banks which formerly readily gave 4 per cent. on fixed deposits for a year are now unwilling to do so. The Bank of Bengal are said to be turning away deposits, and the Bank of Bombay, I believe, stated only last year in a public report that they had more money than they could well use. There is admittedly no demand except during the busy season and even for this I am very doubtful whether any but small amounts could be satisfactorily placed.

In support of my opinion I may quote that of the Bengal Chamber stated in their letter to which I have already referred, that they seriously question whether it would be possible to lend large sums in India. They add that the difficulty in India is the provision of the necessary security, for, except in the case of the Presidency Banks, security of the class offered in the London market is not forthcoming to any great extent.

13. It is not, however, possible to give a definite opinion as to the amounts which might be utilised, and, I think, that enquiries might very well be made from the banks in India as to the terms on which they would be prepared to take moderate amounts. In view of the close connection between Government and the Presidency Banks, I think that these would be the most convenient channel for placing the surplus funds of Government at the disposal of the market. But I cannot see any inherent objection to making similar advances to the Exchange Banks. I see that in section iii.

* Printed as annex to Appendix XXVI., pages 601–7.

of Mr. Abrahams' memorandum (Appendix I., pages 3–7), certain objections are stated to the suggestion that money should be placed with the Exchange Banks in India. These reasons do not appear to me to be conclusive, and, in fact, I notice from an answer given to Mr. Gwynne in Parliament on the 6th November 1912,* that loans have been made in England to certain Exchange Banks from the Secretary of State's balances, viz., the Chartered Bank of India, the Eastern Bank, the Mercantile Bank of India, and the National Bank of India. I should not, however, be in favour of granting loans to firms and institutions other than banks for the reasons stated in the same memorandum.

14. There is a further point which it is necessary to consider in connection with the location of the balances. The question is not one which can be decided merely on a comparison of Indian and English rates of interest. The whole of the surplus of income over expenditure accrues in India; in the home Treasury there is a heavy deficit. The main use of any excess balance would, therefore, be to supplement the Secretary of State's resources when required. If it was retained in India as it accumulated in good years, it would have to be remitted to England when a bad year came. Government would thus be liable to lose heavily on exchange apart from the fact that the operation of remittance, unless this took the form of shipment of gold which has been lying idle in India, would, of itself, tend to cause a slump in exchange, if, indeed, such remittance by the ordinary means of the Secretary of State's drawings was not at such a juncture absolutely impossible.

15. It necessarily follows from what I have stated that I believe that it would have been a serious error in policy to have departed from the existing practice of selling council bills in excess of the budget estimates. From the Government point of view it affords a convenient and economical method of the transfer of funds, while, on the other hand, it is an obvious advantage to commerce and industry as enabling the free importation of funds especially in times of monetary stringency. Until recently the utility of the practice has never even been questioned, and I have seen no justification put forward in support of the criticisms that have been made during the course of the last few months. These appear for the most part to be based on the belief that the Secretary of State has used this method of remittance to transfer to England money that the Government of India would not require to spend in that country. This is not the case. This view is strongly supported by the Bengal Chamber, who have written:—

> "The practice of selling council bills and transfers in excess of the budget estimate of the Secretary of State's requirements has been followed for many years, with the consent and approval of the commercial community of India. So far as the committee of the Chamber are aware it has never been suggested until recently that the practice is antagonistic to the best interests of India. On the contrary, mercantile opinion has always favoured the sales as being a convenience to trade. Nor can the committee understand how it can be said that the proceeds of the sales have been improperly withdrawn from this country; for the equivalent number of rupees have been liberated from the Indian treasuries, and have passed into circulation. The purchasers of the council bills and transfers do not want gold, but rupees and notes, in India; and if they were forced to ship gold they would change it on arrival for rupees and notes. The only result of discontinuing the sale of council bills and transfers would thus be that Government would be forced to receive in India a large quantity of gold, part of which they would have to re-export to England later on to purchase silver for the coinage of new rupees; such an extravagant procedure as this would be does not commend itself to the Chamber" (pages 603–4).

16. With regard to the third point, to which I referred at the commencement, viz.: "Have the Secretary of State's balances been utilised in the most profitable manner?" I feel that I am not sufficiently intimate with the

* Hansard, Vol. XLIII., pages 1461–2.

conditions of the English money market to enable me to offer any useful opinion.

17. Perhaps the next point that needs consideration is the proposal to establish a central bank, which was discussed at length some years ago. The reason originally put forward in support of this proposal seems to have been the maintenance of a gold reserve for exchange purposes, while it appears to have been thought that, incidentally, such a bank might be of value in ensuring a more plentiful and constant supply of loanable capital for trade purposes. Doubts were, however, expressed at the time whether any capital which the bank could be expected to put up would go very far towards supplying an effective gold reserve, and the possible capital for such a bank would certainly now be considered entirely inadequate for the purpose. Moreover, there is a further doubt whether the Presidency Banks could find opportunity for constant profitable employment of any substantial addition to their existing capital.

It is possible that certain other advantages might be obtained by the creation of a central bank. The whole question is, however, a very intricate one, and I should hesitate to express any definite opinion about its possibilities, until an endeavour has been made to formulate some definite scheme, and until this has been fully examined by the various interests affected. For example, there will, obviously, be serious difficulties in settling the question of the headquarters of such a bank to the satisfaction of all concerned, apart from that of the personnel of the directorate, and the place or places of their regular meetings. A further question is, whether one of the advantages anticipated from the constitution of a central bank could not be as well attained by allowing the Presidency Banks to borrow in London. On the one hand, it may well be argued, as suggested by the Government of India in 1904, that it is far more important to trade to ensure the provision of relief in periods of temporary scarcity of capital, than to endeavour to secure by the agency of a central bank the larger supply of permanent capital which it was at one time anticipated would be forthcoming in this way. Even if the exchange banks have done a great deal in this direction, they are not purely Indian banks, and it might on occasions suit them better to transfer funds from India at a time when a purely Indian bank would bring money out there. On the other hand, there are indications that the supply of capital in India has increased substantially in recent years. Thus, to take the figures for the growth of bank deposits (for convenience, I give those prepared by Mr. Reginald Murray, for a paper read by him before the Indian Section of the Royal Society of Arts, in January 1911; these deduct one-third from the figures of the Presidency Banks, as representing deposits of other banks):—

| | In crores of Rupees. |
|---|---|
| 1870 - - - | 8·9 |
| 1890 - - - | 15·4 |
| 1910 - - - | 63·6 |

Mr. Murray estimated that, in addition, the capital and reserves of local banks have increased by over 6½ crores during the last 20 years.

18. I also give certain clearing house figures for the last six years; (I have not been able to get them for a longer period):—

| | In Lakhs of Rupees. | | | |
|---|---|---|---|---|
| | Calcutta. | Bombay. | Rangoon. | Madras. |
| 1907 - - - | 22,444 | 12,791 | 5,626 | 1,552 |
| 1908 - - - | 21,281 | 12,524 | 4,719 | 1,706 |
| 1909 - - - | 19,776 | 14,375 | 4,430 | 1,987 |
| 1910 - - - | 22,238 | 16,652 | 4,765 | 2,115 |
| 1911 - - - | 25,763 | 17,605 | 5,399 | 2,099 |
| 1912 - - - | 28,831 | 20,556 | 6,043 | 2,137 |

Another straw which shows which way the wind is blowing is the appreciation which has taken place in the securities of the large port

trusts, &c. Three years ago the price was in the neighbourhood of 95 (for their 4 per cent. debentures with a 30-years term). It is now about 102. It is not certain whether the result is direct or incidental only. I believe, for instance, as I have already mentioned, that several of the larger banks which formerly readily gave 4 per cent. on fixed deposits for a year, will no longer do so, except possibly for very small amounts as a personal favour to regular customers. And I have heard it suggested that the rise in the above class of debentures is partly due to the fact that a considerable quantity of money seeking a safe 4 per cent., which had formerly been content to lie in the banks on fixed deposit in this way was thus diverted. But even so, the reduction in the deposit rate points to a more plentiful supply of money.

19. For similar reasons, I am inclined to think that the Government might be able to raise somewhat larger loans in India than they have done in recent years. But I doubt, at the same time, whether they can count on getting an appreciably larger sum over a period of years as the Indian money market is necessarily very limited as compared with London, and present indications point to their having to endeavour to raise as much as they can get on reasonable terms both in India and London in order to satisfy their growing capital requirements. I do not think that too much attention can be devoted to the extension of the export trade of India and the building of railways for this end.

## II.—*The Adoption of the Gold Standard.*

20. Some of the criticisms which have been made in connection with the adoption of the gold standard and the fixing of the rupee at 1*s.* 4*d.*, indicate that the critical conditions which led the Government of India to take these steps are occasionally lost sight of. In the first place, the depreciation of the rupee threw very heavy additional charges on the Government of India, and it is estimated that in 1894–95 taxation to the amount of over 8,000,000*l.* sterling had to be levied in India over and above what would have been necessary if the change in the relation of the currency to gold had not taken place. A no less serious feature of the situation was, as the Currency Committee of 1893 pointed out, that the Government were compelled to contemplate a further fall, the effect of which could not be forecast. The progressive fall in the gold value of the rupee not only occasioned unexpected deficits, and obliged the Government to retain and sometimes to increase taxation, which it was anxious to remit, but also to stint expenditure of the most necessary kind, to restrict public works, and to refrain from undertaking much required improvement with borrowed capital, both on account of apprehensions of the money market and the risk of contracting fresh gold obligations. Again, apart from the direct loss to the Indian Government, and consequently to the Indian people, as it was on the general taxpayer that the added burden fell, the uncertainty attaching to the value of the rupee was a direct handicap to trade, and necessarily discouraged the investment of much needed private capital in India.

21. It is, in my opinion, beyond dispute that the reform of the currency initiated in 1893 has not only greatly ameliorated the financial position of Indian Government, but has also coincided with great commercial prosperity and industrial growth, notwithstanding the retarding influence of serious crop failures during the period. From 1896 onwards the revenues have mounted up year by year and large surpluses have been secured, in spite of substantial reductions of taxation, and considerable additions to the public expenditure for education, police and other urgent administrative requirements. During the same period the external and internal trade of India has increased beyond precedent. Again with the removal of the uncertainty attaching to the value of the rupee, British capital has flowed into the country and has made possible the general advance which has taken place. From this source large additions have been provided to railway communications, irrigation works and industrial plant, the result being that India has been placed in a position to create capital on her own account, a position of which she is taking a steadily increasing advantage. I have not been able to lay my hands readily on figures to cover the exact period that has elapsed since the gold standard became effective, but I may note that between 1900–01 and

1909–10 the number of cotton mills in British India increased from 177 to 210, the number of looms from 37,000 to 75,000, the number of spindles from $4\frac{3}{4}$ to $5\frac{3}{4}$ millions, and the persons employed from 145,000 to 215,000. The production of yarn during the decade rose from 343 to 593 million lbs., and of woven goods from 95 to 215 million lbs. Jute mills increased in number from 36 to 60, the looms from 15,000 to 31,000, the spindles from 317,000 to 646,000, and the persons employed from 110,000 to 204,000. Again, as Sir Theodore Morison recently showed in some figures which he prepared for the purpose, the percentage of the manufactured goods imported into India as compared with the total imports has been steadily falling, while the percentage of manufactured goods among the exports has been simultaneously rising:—

| — | Percentage of manufactured goods imported to total Imports. | Percentage of manufactured goods exported to total Exports. |
|---|---|---|
| 1879 - - - | 65 | 8 |
| 1882 - - - | 57 | 16 |
| 1907–08 - - - | 53 | 22 |

22. The growth of India's industries can only be regarded with satisfaction. It tends both to obviate the distress resulting from famines by the provision of a diversity of occupations, so that the employment of the labouring classes is not so exclusively dependent upon agriculture, and also to increase the wealth of the country as a whole by stimulating production of the raw materials required by the industries. But this industrial development is only one feature of India's general economic progress. Agriculture has always been and will doubtless continue to be the main industry of the country. Here we find that the net area estimated to be under crops rose from 180 million acres in 1899–1900 to 223 million acres in 1909–10. Of this area more than 16 million acres were irrigated by the State canals for which capital accounts are kept. These canals which consist of about 13,000 miles of main canals and 31,000 miles of distributories, were constructed at a cost to the State of $37\frac{3}{4}$ millions up to the end of 1909–10. This substantial increase in the cultivated area is necessarily largely in response to the increased facilities which have been provided by the steady improvement of communications for the cultivators to market their goods. Thus the railway mileage stood at 32,400 on March 31st, 1911, as compared with 24,400 miles in 1900. In 1910 more than 65 million tons of goods were carried over an average distance of 184 miles at an average cost of rather less than $\frac{1}{2}d.$ per ton per mile, as against 43 million tons in 1900. The corresponding figures for the passenger traffic were 372 million persons in 1910, as against 176 million persons in 1900, carried an average distance of 36 miles at a cost of about one-fifth of a penny per mile. Incidentally the figures would seem to point also to an increase in the general prosperity of the people, of which further indications may be found in the increased use made of the postal and telegraph departments. Thus the estimated number of letters, postcards, &c., sent through the inland post rose from 469 millions in 1900–01 to 832 millions in 1910–11, the number of private telegrams despatched from $4\frac{3}{4}$ to $10\frac{1}{2}$ millions, the number of inland money orders from 13 to $24\frac{3}{4}$ millions, and their value from $17\frac{1}{2}$ to 28 million pounds. If there is any question that a distinct improvement in the standard of living has taken place in many parts of India, evidence of this can be found in the increase in the imports of petty luxuries. Thus to take a period of five years only between 1906–07 and 1910–11 imports of iron lampware rose from 157,000*l.* to 227,000*l.* in value, glass lampware from 46,000*l.* to 82,000*l.*, sewing machines from 79,000*l.* to 159,000*l.*, patent medicines from 119,000*l.* to 155,000*l.*, boots and shoes from 194,000*l.* to 305,000*l.*, the number of pairs increasing from $1\frac{1}{4}$ to more than $1\frac{3}{4}$ millions, haberdashery from 361,000*l.* to 418,000*l.*, clocks and watches from 123,000*l.* to 134,000*l.* in value, and in number from 465,000 to 647,000, glass beads and false pearls from 160,000*l.* to 187,000*l.*, matches from 421,000*l.* to 559,000*l.* and toys and requisites for games from 191,000*l.* to 258,000*l.*

23. It cannot of course be pretended that the adoption of the gold standard is the sole cause of these and other remarkable results which have

coincided with its introduction. I have ventured, however, to cite these in answer to critics who have alleged that the change would have or has had an injurious effect on India.

### III.—*Gold Currency and Gold Coinage.*

24. In considering the measures necessary to ensure the convertibility of the rupee, the Fowler Committee recognised that the principal use of a gold reserve was that it should be freely available for foreign remittances whenever the exchange falls below specie point, and there is a more or less general agreement that a gold reserve can be most effectively and economically employed when utilised in this direct manner. At the same time the Committee expressed the opinion that India should be allowed to possess the normal accompaniment of a gold standard, namely, a gold currency; that the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the Australian branches of the Royal Mint, and further, that when the Government of India had accumulated a sufficient gold reserve, and so long as gold is available in its treasury, it might discharge its obligations in gold instead of in rupees. The advantages generally claimed on behalf of an effective gold currency for India are that its existence would imply that the trade demand for currency could be met to a larger extent by gold instead of by rupees, and that the liability of Government for the redemption of rupees put into circulation would thereby be *pro tanto* diminished; and further, that in time of adverse trade conditions the gold in circulation would, to some extent, find its way back to the commercial centres and be available for the purposes of export. Entirely apart from these considerations it is, in my opinion, most desirable, in the case of a State managed system of the kind in force in India, that Government should aim at being in a position to supply the form of currency that may be at the time in demand.

25. The chief difficulty which the Committee apprehended would stand in the way of attaining an effective gold currency was the habit of hoarding. As to the extent to which the hoarding or melting down of sovereigns is now carried on, it has been most difficult, or I may even say impossible, to obtain any exact or accurate information. Such facts as are available regarding the circulation and hoarding of gold are set out in the last two reports of the operations of the Indian Currency Department, *vide*, *e.g.* pages 14 to 22 of Mr. Gauntlett's report* for 1911–12, and the accompanying statements at pages 41, *et seq.* The total absorption of sovereigns by the public during the 14 years ending with 1912–13 was 64,315,000*l.* (*vide* the statement on page 216 of Mr. Abrahams' note on the proposals for the coinage of gold in India—Appendix VI.). There can be no doubt that a very large proportion of these sovereigns have been melted down or hoarded, but in connection with the latter practice I am doubtful whether any very sharp distinction can properly be drawn between the sovereigns hoarded and those in active circulation. So-called hoards may be used as money more often than the term is usually held to imply. In fact, the temporary hoarding of coins merely means a diminution in the rapidity of their circulation. It is not possible to give any definite estimate of the proportion of sovereigns actively in circulation. Mr. Gauntlett has summed up the position by saying: "In conclusion the facts of the year (1911–12) " seem to substantiate the view that in Northern India, Bombay, and part " of Madras, the use of the sovereign as currency is steadily increasing. " In other parts of India its main use is still for conversion into ornaments " or jewellery. If the sovereign could be used in the jute and rice " trades as it is already used for wheat and cotton, its circulation would " be increased enormously. Its use in the rice trade in Burma would " displace notes mainly, but silver is still the form of currency used in the " jute trade. As a good jute crop always leads to a large absorption of " rupees, it is evident that the cultivators are wealthy, so that the sovereign " ought to be a suitable coin for them." The sovereign is in fact, in my opinion, a suitable coin for India generally. The Punjab wheat crop is already largely financed by its use, it circulates freely in Bombay, and has, as Mr. Gauntlett's report shows, penetrated up country to a considerable extent. Apart from this it has, as the Government of India pointed out in their despatch, obvious advantages over a distinctively Indian coin for use in the international exchange.

* Not printed; published in the Gazette of the Government of India for 21st December 1912.

I may also mention that I do not think that the sale of Council bills at 1*s.* 4⅛*d.* per rupee can be said to tend to keep gold from circulation in India at the present time. Though Councils have been sold in excess of the amounts budgeted for, they have not been sufficient to meet the whole trade balance, and have not, therefore, prevented sovereigns from flowing into India in enormous quantities. These are, as Mr. Abrahams has stated, for the most part tendered to Government in exchange for rupees and notes at the rate of Rs. 15 to the 1*l.* Sovereigns so received are made freely available to the public against the tender of rupees or in encashment of notes at this rate. In spite of this the sovereigns lying in the paper currency reserve in India on the 31st March 1913 amounted to nearly 20,000,000*l.* The following figures show the absorption of sovereigns by the public during the last three years, and the amount in the paper currency reserve in India on the closing day of each year :—

| — | Net Absorption | | | Balance in Paper Currency Reserve in India. |
|---|---|---|---|---|
| | After passing through Government Reserves and Treasuries. | Direct Absorption. | Total. | |
| 1910–11 - - | 7,177,000 | 914,000 | 8,091,000 | 6,186,000 |
| 1911–12 - - | 7,592,000 | 1,289,000 | 8,881,000 | 15,554,000 |
| 1912–13 - - | Not available. | | 11,005,000 | 19,583,000 |

From certain points of view it must be admitted that a paper currency with gold in reserve is more economical than a gold currency. I do not think, however, that there is any suggestion of endeavouring to extend the circulation of gold to any extent at the expense of notes. The Government of India have done much to increase the popularity of their note issues in recent years by the universalisation of the notes up to and including 100-rupee notes. The position which I would have Government aim at is, as I have already said, that of being able to supply the form of currency that may be at the time in demand, and consequently of giving gold when required in exchange for notes. If there is a demand for gold for currency, confidence can only be secured by its supply. Though the increased use of sovereigns may have some slight effect on the note circulation, it does not appear to have been very great. Mr. Gauntlett writes : "It is a possible inference that " in the year under review the increased use of sovereigns has resulted in " less use being made of 10-rupee notes than would otherwise have been " made. It must be admitted, however, that the figures in previous years " have not justified a similar inference, and it is not possible to come to a " final conclusion on the matter." The position appears to be that though the use of gold and notes may overlap to some extent, there is a sphere for both of them. It is possible that a 10-rupee piece might compete with the 10-rupee note to a greater extent than the sovereign does; if so, this would be an additional reason for preferring the sovereign to a special 10-rupee coin or a gold coin for India. I am in favour of opening a mint in India for the free coinage of gold, and for the reasons which I have indicated above I should prefer the sovereign to a special Indian coin, such as a 10-rupee piece. I do not think that any seignorage should be charged on the coinage of sovereigns. The result of the imposition of such a charge, unless it were purely nominal, would apparently be to stultify the action taken in opening the mint. With regard to the advantages to be attained by the opening of a mint, I cannot add to what has been said in the Government of India's despatch of last year on the subject, and in paragraphs 50–52 of the last Indian Financial Statement.* It may be that the opening of a mint would not directly or immediately operate to increase the circulation of gold. It appears to me, however, to be anomalous that though gold is now the standard metal of the Indian currency, gold bullion in India can only be converted into legal tender currency in India by being sent to England (or Australia) and there coined into sovereigns. It would at present not even be possible, should circumstances draw gold ornaments or bullion out of hoards, to reconvert these into standard coin otherwise than by this roundabout process.

* H.C. 130 of 1913.

## IV.—*The Exchange Standard.*

26. The essence of the exchange standard is that the local currency is not necessarily redeemable in gold, but is kept near a fixed par with gold by control by Government (or a central bank) of the foreign exchanges. The Government or the bank make arrangements for the provision of foreign remittances in gold at a fixed maximum rate in terms of the local currency. It is thus necessarily dependent on other monetary centres.

27. Though under the system now in existence, Government does not undertake to redeem the currency in gold, it is in my opinion desirable that Government should aim at always being in a position to redeem, and I do not think that they should attempt to husband the supply of gold by refusing to give it out when available.

The extended use of gold in India may, as has occasionally been suggested, by taking off a portion of the world's supply of gold which would otherwise tend to cause a further rise in world's prices, have certain possible advantages from this point of view. I would not, however, attempt to justify it on this ground and I am not sure that it would be legitimate to do so.

28. I have indicated elsewhere that the primary object of the gold reserves of the Government of India is to maintain exchange. And this result can probably be most directly and economically obtained if the main portion of the reserve is held in London. It is essential, therefore, that an adequate reserve should be so held. Beyond this, however, Government should endeavour to meet internal demands on it for gold in India, and to hold gold in that country also sufficient to ensure this. The free issue of gold in India at the time of a crisis may form a valuable supplementary measure to the sale of sterling bills on London.

29. I may add in this connection that I should not attach any importance to such a criticism as that (in the particular case with which we are concerned, viz., that of England and India) the "guardian country" relies on the earmarked gold as a possible resource for itself in a crisis. While I consider that a substantial portion of the reserve in the guardian country should be held in a liquid form, I do not see any objection to the investment of the balance; in fact, I consider that it would be uneconomical not to invest it.

30. I do not myself share the theoretical objections urged by some persons to "State-managed systems" as such. I understand that, outside the United Kingdom, no system can be said to be free from management. Whether such management should be exercised by Government or by a bank brings one directly to the question of a State or central bank. An American writer, Mr. Conant, has gone so far as to say that "constant intervention by the "Government is a part of the existence of any system, even where free and "gratuitous coinage on private account is authorised by law."

31. I do not think that there have been any undesirable complications as between the paper currency and the gold standard reserves, or that the use to which these have been put has afforded any legitimate ground for misunderstanding or suspicion on the part of those using the currency. It is possible that some features in these reserves which have grown up in the course of the development of the Indian currency system might now be simplified so as to make the arrangements somewhat more intelligible to the layman, but I do not consider that any question of principle is affected.

## V.—*Gold Standard Reserve.*

32. I think that the existence of a special gold standard reserve is essential; and that it should be held partly in liquid gold and partly in securities. As to

the latter I agree with the view expressed in section iii. of Mr. Abrahams' memorandum (Appendix III., page 88), that the holding should as far as possible be in the form of securities due for early redemption at a fixed date. For reasons which I have already explained I think that the main portion of the reserve should be held in London, and that the 25,000,000*l.* up to which it has been decided that this branch of the reserve should be allowed to accumulate should be regarded as a minimum figure, and that its adequacy should again be considered when this figure has been reached, in the light of the circumstances of the time. Mr. Abrahams, in estimating the amount required for safety, bases his calculations on the experience of 1907–08. I think that in coming to a decision, it is necessary to bear in mind the fact that the annual expenditure in England, now chargeable to the revenues of India, is estimated at over 20,000,000*l.* I entirely agree with the system of earmarking gold for the reserve at the Bank of England and consider that here again 5,000,000*l.* should be regarded as a minimum figure. This may perhaps be sufficient, provided that the bulk of the balance of the reserve is held in securities maturing at a short date, or if it is decided to continue the practice of holding a substantial portion of the paper currency reserve gold in London. It must, however, be remembered that in 1907–08 the centre of the financial crisis was in the United States. It is not inconceivable that a crisis in London might be even more serious, and I should prefer to hold 10,000,000*l.* to 15,000,000*l.* in liquid gold in the London branch of the reserve, and to see the total holding in the gold standard reserve there standing at 30,000,000*l.* than at 25,000,000*l.* It is so essential that the reserve should be entirely adequate that I do not consider that it is possible to err on the side of caution, in spite of the expense which a large gold reserve must admittedly entail.

33. I do not approve of the action taken in 1907 when funds previously allocated to the reserve were used for railway development in India. I consider that this was, to say the least of it, premature. And it had the great incidental disadvantage of causing the public to have grave misgivings as to the future policy of Government in regard to the treatment of the fund.

34. I should be inclined to continue to hold some portion of the reserve in India. I do not, however, regard this as essential, provided that Government arrange to hold in the paper currency reserve stocks of (*a*) rupees, and (*b*) sovereigns sufficient to meet the demand for either coin that may arise in India. If it be decided to retain the Indian branch of the gold standard reserve, this could not very well be held in securities; the question whether it should be held entirely in gold, or partly in gold and partly in silver, and its amount, must be dependent to some extent on the decision as to the future relations in certain respects between the paper currency and the gold standard reserves, to which I refer below.

35. I do not think it is necessary, for the present at any rate, to put the gold standard reserve on a statutory basis.

### VI.—*Paper Currency Reserve.*

36. I am not in favour of amalgamating the gold standard and paper currency reserves. These reserves are designed to secure two entirely different objects. To mix up the two reserves would probably give rise to distrust and suspicion. The object of the gold standard reserve is to secure the parity of the rupee with gold. That of the paper currency reserve is to secure the convertibility of the note circulation. For the latter purpose the first necessity is to provide a sufficient store of rupees to ensure against risk of shortage. With regard to the silver portion of the reserve, I agree with the view expressed by Mr. Newmarch that the policy sketched in paragraph 37 of his memorandum (Appendix VIII., pages 245–6), is generally suitable as a guide for action at the present time, though it may require modification and need not and should not be laid down as an absolute hard and fast rule. For similar reasons I do not think that the holding of gold in the reserve in London is open to the objections urged against it. It can be justified by the fact that when held in London the gold is one stage nearer the point at which it becomes practically effective for its

primary purpose of securing the encashment of currency notes by rupees, for the coinage of which the silver bullion can ordinarily only be procured in Europe and not in India. Certain other incidental advantages attach to the location of a portion of the currency gold in England which I need not enumerate.

37. With regard to the holding of gold in India it is true that the notes may be said to be issued mainly against silver, but this does not state the position completely. The rupee itself is now a fiduciary coin and it would seem to be most desirable that Government should be in a position to honour their notes by a direct payment of gold, should there be a demand for this. To refuse to do so merely involves the circuitous course of paying rupees for the notes and subsequently redeeming the rupees with sovereigns.

38. I do not see why the utilisation of the paper currency reserve as a line of defence against a fall in exchange need lead to complications. Provided that the primary object of the reserve is properly secured, there can hardly be any valid objection to its gold being utilised in the manner suggested.

39. I should, however, prefer not to call the paper currency reserve the first line of defence against a fall in exchange. It may not unreasonably be suggested that this rôle more properly attaches to the gold standard reserve, which can readily be so used if a portion of it be held in a liquid form. I think that the Secretary of State and the Government of India should be guided by the circumstances of the time in deciding exactly which of their gold reserves should be employed to this end, either at the initial or at any subsequent stages of a crisis.

40. The next point to consider is the future relation between the paper currency reserve and the Indian branch of the gold standard reserve. The latter at present consists, in its normal condition, of 6 crores of rupees, which will be replaced by gold transferred from the paper currency reserve, when the demand for rupees to replenish the latter necessitates this. The position has arisen from certain circumstances in the recent history of the Indian monetary system; but, while it can be justified on grounds of history and convenience in the past, it must be admitted that it is somewhat anomalous; I am not sure that the objects in view cannot equally well be attained in another way, and that some slight modification of the existing arrangements cannot now conveniently be made. I would suggest that the rupees so held should now be transferred to the paper currency reserve against a similar transfer in sovereigns to the Indian branch of the gold standard reserve, and that the latter should in future normally be held in sovereigns. Mr. Abrahams, in section vi. of his memorandum on the gold standard reserve (Appendix III., page 95), has pointed out a possible drawback to this alteration, viz., that it may at times be convenient to sell Councils against the Indian branch of the gold standard reserve, crediting the English branch of that reserve with the proceeds of the sales. When the necessity for such a transaction arises, it would, I think, still be possible to transfer from the paper currency reserve to the Indian branch of the gold standard reserve a sufficient number of rupees to meet the drawings of the Secretary of State on the latter, against an equivalent transfer of gold to the paper currency reserve in India. The gold received by the Secretary of State as the proceeds from the sale of the Council Bills, could then be credited temporarily, just as it would be under existing arrangements, to the gold standard reserve in England, and the net result of these transactions as regards the location of funds, would thus merely be a temporary transfer of a portion of the Indian branch to England. Such transactions will not, presumably, be very frequent, and they seem to be quite legitimate as affording additional elasticity, without in any way impairing the effectiveness of either reserve for its primary purpose.

41. It remains to consider the constitution of the paper currency reserve, and its distribution as between England and India.

*Gold in England.*—I would suggest 5,000,000*l.* as a suitable figure, for the normal holding.

*Gold in India.*—The net absorption of sovereigns by India during the last three years has been :—

| | £ |
|---|---|
| 1910–11 - - - - | 8,091,000 |
| 1911–12 - - - - | 8,881,000 |
| 1912–13 - - - - | 11,005,000 |
| | 27,977,000 |
| Average - - | 9,326,000 |

The rate of absorption has grown rapidly. It may continue to grow steadily, or it may be the case that saturation point will be gradually reached and that the rate of absorption will increase more slowly in future, or even show some decline. But I would take these figures as a rough guide, and endeavour to hold in India enough gold to provide for 18 months to two years' internal absorption, say, 15,000,000*l.* to 20,000,000*l.* in round figures, between the Indian branch of the gold standard reserve and the paper currency reserve. On the assumption that the gold standard reserve holding will, in future be in gold, and that this will remain at its present figure of 4,000,000*l.*, we are left with 11,000,000*l.* to 16,000,000*l.* (equivalent to 16½ to 24 crores) as the paper currency holding. Adding this to the rupee holding we have :—

| — | Beginning of Busy Season. | End of Busy Season. |
|---|---|---|
| | Crores. | Crores. |
| Silver - - - - - | 24 | 17½ |
| Gold - - - - | 16½ | 24 |
| | 40½ | 41½ |

These figures are necessarily somewhat arbitrary and I would suggest a total coin holding in India of 40 crores in round figures, in addition to the 5,000,000*l.* to be held in England, or 47½ crores in all. (This is also in addition to the Indian branch of the Gold Standard Reserve. If it is decided to abolish this, I would make a corresponding increase in the coin holding of the Paper Currency Reserve in India.)

42. The total note circulation has increased very rapidly in recent years. For convenience of reference I give the figures from 1909 onwards :—

| March 31st. | Total Circulation. | Notes in Active Circulation among Public. |
|---|---|---|
| 1909 - - - | 45,48,79,505 | 34,95,08,965 |
| 1910 - - - | 54,40,84,250 | 39,98,06,520 |
| 1911 - - - | 54,99,05,815 | 40,17,22,230 |
| 1912 - - - | 61,36,25,095 | 44,61,25,095 |
| 1913 - - - | 68,97,78,240 | Unavailable. |

The figures for the last year are doubtless swollen by the large holdings in the reserve treasuries as a result of the high general balances held in India. But in view of the great increase in the popularity of the notes which appears to have resulted from the universalisation of the notes of denomination up to and including Rs. 100, it is improbable that any substantial set-back will occur, and I do not believe that there is any likelihood of the total circulation falling again below the figure of 61½ crores, at which the reserve stood at the close of 1911–12. This would allow for the existing investment without in any way trenching on the normal figure of 47½ crores which I have suggested for the total metallic portion of the reserve in India and England together. But I believe that it would be possible with perfect safety to go further than this. If the level of March 1913 be approximately maintained this would comfortably allow for an increase in the investment by another 6 crores,

bringing it to 20 crores. The gross circulation should not, however, be the only or even the chief guide, and in order to determine the limit of safety for the purpose of calculating the portion which may be invested it is necessary to look to the permanent circulation of notes among the public. As an idea of this it is usual to take the net circulation (after excluding the amounts held in the reserve treasuries of Government and the head offices of the Presidency Banks). For the three years ending with 1911–12 the figure were (in lakhs) :—

| — | Average. | Maximum. | Minimum. |
|---|---|---|---|
| 1909–10 | 38,88 | 42,66 | 36,07 |
| 1910–11 | 40,82 | 43,37 | 38,52 |
| 1911–12 | 44,24 | 47,54 | 40,73 |
| Average | 41,31 | 44,52 | 38,44 |

Were it possible for me to include the figures for 1912–13 in place of those for 1909–10 there is no doubt that average figures would be substantially higher, but even on the above averages I consider that an increase of two crores in the investment could with perfect safety be immediately made; an investment of 16 crores represents a percentage of only about 38·7 on the average net circulation and of 41·6 on the minimum net circulation figures, which I regard as very well within the margin of safety. And I think that, unless entirely unexpected circumstances occur to arrest the growth of the reserve, it will be found that a further increase to the 20 crores already mentioned will be justifiable in the very near future.

43. With regard to the form which the investment should take, I should be inclined to make further investments in Government of India 3½ per cent. rupee paper until the rupee investment reaches a figure of Rs. 15 crores, equivalent to 10,000,000*l*. In the case of subsequent investments the position could be reconsidered later on if necessary. At the time when investments were made in sterling securities the gold position of the Government of India was very much weaker than it is now and it was desired to strengthen it. Circumstances have now changed. With a substantial quantity of liquid gold both in the paper currency and the gold standard reserves that side of their defences should be secure. Moreover, in view of the large holding of sterling securities in the gold standard reserve I should prefer to see the investment now under consideration made in rupee paper. In the event of an investment being so made the simplest and most economical course would probably be for Government to make the issue direct to the paper currency department, instead of buying up existing loans from the market. This course has, I believe, been adopted on some previous occasions.

44. I should prefer not to express any opinion on the question of handing over the paper currency to a central bank, until the general advantages and disadvantages of such a bank have been further considered, and the proposals for its constitution have assumed a more definite form. I think that in any case the Government of India might be asked to consider the possibility of making the system more elastic; and that in this connection the suggestion that has been thrown out from time to time, viz., that at times of stringency loans should be given from the paper currency coin reserve, merits further examination. With regard to this proposal the late Sir Clinton Dawkins held that it is open to fatal objections. He said "It is the duty of Government "to keep a coin reserve sufficient to ensure the convertibility of its notes. "If the proportion of coin to securities in the total reserve is large enough "to allow of loans being made, then that proportion is unnecessarily large. "In such a case securities should be substituted for superfluous coin, and "the general taxpayer, not any particular section of the taxpayers, like the "banks, should benefit thereby." It might well be argued on the other hand that loans to banks are of the nature of a temporary investment, and that it may be convenient to Government on occasion to place out money in this way instead of making a permanent investment. The general taxpayer would not be prejudiced inasmuch as a suitable rate of interest would of course be charged on such loans.

VII.—*Purchases of Silver, &c.*

45. I do not consider that the coinage of rupees since 1899 has been excessive. Coinage has only been undertaken to meet the demands of the trade, and the issue of rupees when coined has been automatically limited by the extent of the demand. When the demand temporarily ceased in 1907, the coinage of new rupees was discontinued by the Government, and the sale of sterling drafts on London operated to redeem such rupees as were in excess of the reduced public requirements. These rupees were then held by Government in the Indian branch of the gold standard reserve. Both these and the further quantities which flowed back into the paper currency reserve were for all practical purposes withdrawn from circulation, until the revival of the demand for Councils indicated that the rupees were again required for trade purposes. Had it been possible for Government to force into circulation, or had they retained in the circulation, rupees in excess of the requirements of the time, a depreciation of the currency as compared with gold must necessarily have followed. This, however, was not the case, and the measures taken were sufficient to secure the convertibility of the rupee and thereby to maintain its exchange value.

46. With regard to the question whether purchases of silver should be regular instead of intermittent, I agree generally with what is said in paragraphs 39–43 of Mr. Newmarch's note on the paper currency reserve (Appendix VIII., pages 246–7).

47. I do not think that there is any likelihood in the near future of such a change of conditions as would warrant the limiting of the legal tender of the rupee on the one hand, or the refusal to give rupees for sovereigns on the other.

## APPENDIX XXIV.

STATEMENT OF EVIDENCE SUBMITTED BY MR. W. B. HUNTER, SECRETARY AND TREASURER OF THE BANK OF MADRAS AND CHAIRMAN OF THE MADRAS CHAMBER OF COMMERCE.

I.—*The Sale in London of Council Bills and Transfers, and the Measures taken to maintain the Exchange Value of the Rupee.*

1. With the great growth of Indian foreign trade, the original object of the sale of Council bills and transfers, viz., the provision of funds for the Secretary of State's requirements, has sunk into secondary importance.

2. If no Council bills were offered for tender, the Government of India would have no difficulty in remitting in normal years through other channels the full amount required by the Secretary of State, and in abnormal years the difficulty of obtaining such remittances would be no greater than the difficulty of selling Councils.

3. The chief reason for continuing the system is that under the existing conditions it meets the requirements of trade in the most economical manner by reducing the movement of gold coin from Europe to India, and *vice versâ*, to a minimum, and *pro tanto* guards against unnecessarily disturbing the London money market.

4. Until, therefore, it can be shown conclusively that India requires a large quantity of gold in active circulation, a condition of affairs that does not now exist, it is desirable that Councils and transfers should be sold to an unlimited extent at a rate under gold point.

5. As a corollary to the above, when exchange weakens, that is when Telegraphic Transfers and Councils cannot find buyers at 1*s.* $4\frac{1}{32}$*d.* and 1*s.* 4*d.* respectively, they should cease to be offered and the reverse operation immediately put into force, viz., the sale of sterling bills in India, at, say, 1*s.* $3\frac{15}{16}$*d.*

6. Sterling bills on London drawn in India should be met first from the gold accumulation in the London portion of the currency reserve, and then from temporary investments, and thereafter from the permanent investments of the Gold Standard Reserve. The release of gold from the currency reserve as a first step is important, as the operation would ease the money market preparatory to realisation of securities.

7. The unlimited sale of Councils and Telegraphic Transfers on India can be provided for in the following manner:—

1. By Treasury balances.
2. By Indian branch of Gold Standard Reserve.
3. By currency reserve.
4. When necessary by new coinage of silver purchased by proceeds of bills.

8. The source from which bills are to be met should be regulated according to the conditions ruling in the money markets in London and India at the time of sale, but, broadly speaking, the ruling principles should be: When rates in London are stiff, gold must not be withdrawn either for export or earmarking for currency reserve, and all available balances in London should be lent freely. But equally with the above, when money is tight in India, currency must not be withdrawn in anticipation of bills being drawn, and funds in the general balances and reserves should be made available for Indian trade. With tight money in both markets the balance must be held evenly between them.

II.—*The Location and Management of the General Balances of the Government of India.*

9. The location of the general balances of the Government of India is so dependent on the demand for Council bills and condition of the money market, that no hard and fast rule can be drawn as to a maximum and minimum balance either in London or India.

10. So far as possible as shown in my note regarding Council bills, the general balances of the Government of India should be put at the disposal of the market in most need of relief, transfers to and fro between London and India being a simple operation through the Currency Reserve as now constituted. The chief alteration in the location and management of the general balances of the Government of India required is that an end be put to the practice of locking up vast sums in Government treasuries and reserve treasuries. The withdrawal from active circulation of Rs. 20 crores as at the 31st January 1913, with an 8 per cent. rate ruling in all three presidencies, is indefensible.

III.—*The Location, Disposition, and Employment of the Gold Standard and Paper Currency Reserves.*

11. The location of the Gold Standard Reserve, and its disposition and employment, depend largely on the exigencies of exchange and requirements of the markets. The silver portion can only be held in India, and the gold should be held in England, where alone it will be required to meet the object for which the reserve exists. It is not desirable that the sterling portion should be held in coin. The whole may safely be invested when the Currency Reserve is strong in gold.

12. The large holding of securities, which under certain circumstances may have to be realized, is not really a menace to London. The securities and bills held by continental nations are much more dangerous, for in the case of the latter securities may be sold and bills discounted with the object of obtaining gold for export, whereas with the securities of the Gold Standard Reserve such could never be the case. They can be sold only when the exchange has gone against India, that is when India has to pay for imports, the bulk of which come from Great Britain. If before sale of securities gold is released from the Currency Reserve no possible trouble could ensue. The gold so released would more than cover the possible demand from other countries in payment of Indian imports.

13. Taking the figures as at present—

In the Indian Currency Reserve and Gold Standard Reserve there are 25½ million pounds.

The sterling investments in the Gold Standard Reserve amount to 17 million pounds.

14. Therefore, for every 100*l.* worth of securities sold or loans called in 150*l.* in gold could first be released.

15. With regard to the Currency Reserve, the silver portion should of course be held in India, but practically all the gold should be in London.

Any portion held in India should be very carefully conserved. When exchange shows signs of weakening no gold should be given out but sterling bills should at once be made available. In 1908, when exchange fell, about 3,000,000*l.* in gold was withdrawn from the Currency Reserve in India, but it was not exported in payment of foreign liabilities, and thus did nothing to support exchange.

16. The invested portion of the reserve lacks elasticity and in this respect the Paper Currency Act requires amending.

IV.—*The Proposed Opening of the Indian Mint for the Coinage of Gold and the Forcing of Gold into Active Circulation.*

17. In theory the advocates of the opening of the mints to gold coinage may have some right on their side, but in practice I believe the mints would be silent. If they were sufficiently active to justify their existence the result would inevitably be to force exchange against India.

18. Gold bars, which will always be required in India as a commodity, and which in the past have come principally from London, will no doubt continue to come from there, but banks requiring currency immediately will never import bars so long as sovereigns are legal tender, as they would have to wait for their money for the time between the delivery of the bars and the receipt of the gold coin in exchange.

19. Indian foreign trade being practically entirely financed through London, the amount required to balance India's excess of exports over imports will be arranged through London. A portion of the required amount will be met by sovereigns from Egypt and Australia, but there is no probability of gold for coinage coming in unless it can be attracted from Africa.

20. The exports from India to Africa are negligible, and gold attracted from Africa will have to be paid for in London.

21. Assuming that gold can be attracted profitably from Africa to pay the balance due to India from London, that is to say, that freight, insurance, and time in transit from African mines to Bombay compare favourably with charges and time in transit from mines to London, and that in exchange for the raw gold, currency can be obtained as quickly and economically as in London—there is no doubt the balance of trade in India's favour may be paid by gold attracted from Africa. But if this operation is possible to put through profitably it follows that all gold from Africa will follow the same course, Council bills will be unsaleable, gold will accumulate, and the exchange will be driven against India until a point is reached when it will be more profitable to ship the gold direct to London from Africa. To meet all objections arrangements might be made to receive gold at the mint and to issue rupees in exchange therefor without legislating for the minting of gold coins. Such an arrangement would meet a possible need in time of scarcity—enabling those with gold in any form to turn it into coin of the realm. If it were found that gold came in too freely, the arrangement could be rescinded more easily than the closing of the mints to coinage could be.

22. Under existing arrangements sovereigns are obtainable if required at the currency offices. Although they are now used as currency to a considerable extent in some places, the receipts are larger than the demand, and it is only by selling Councils below gold point that accumulation can be kept within reasonable limits. Receipts then being larger than the actual demand, it remains to consider whether it would be to the interest of India to force gold into active circulation. The disadvantage of so doing is the strain that would be imposed in London just at the time when gold is being withdrawn for Egypt. Stringency would ensue which would react on the Indian export trade.

23. There is no advantage in forcing gold when silver is acceptable. The demand is growing naturally and the danger is that the pace will grow too fast. The amount of silver in active circulation being so large there is no hope of saturating the currency for many years to such an extent that gold will come back from circulation when required to keep up exchange. Any gold which India can attract without upsetting the markets in gold-using

countries should be carefully conserved in the reserves. Gold is preferable to silver as currency only because it is more portable, but notes are more portable than gold, and it is to the more extensive use of notes as currency that all energy should be directed. The larger the note-issue the larger will be the gold reserve that the Currency Department can carry, and such gold will be at hand when required to meet foreign obligations, whereas if forced out into circulation it will not come back in any large volume when required.

24. In the Madras Presidency disbursements of gold to the public have been considerable, and in addition native bankers import a constant stream of gold from Bombay, yet with the exception of the Native States of Cochin and Travancore, to which places the Bank of Madras alone has sent over 1,500,000*l.*, the amount of gold in active circulation is negligible.

25. Proof is not possible, but the inference is strong that so far the gold put out goes into hoards and jewellery.

26. The native of India is no less desirous of making his capital fructify than peoples of other countries, and the reasons for his propensity to hoard gold must be looked for in other directions than the love of his women for fine ornaments.

27. Among these reasons I would put in the front rank the desire to provide for wife and daughter, a provision a Hindu cannot make under existing law of succession except in the form of ornaments and coin. The Mahomedan law of succession is different, but owing to the purdah custom a form of provision that can be under the immediate control of the person to be provided for is preferred. In this Presidency those following the Murumakattayan law of inheritance make provision for their sons in gold, and this in part may account for the absorption of gold by Cochin and Travancore. Gold is also the only means available for making a settlement which will provide for the family in case of failure in business or loss of capital through other calamities. As Western ideas gain favour, therefore, the greater will be the propensity to hoard until a state is reached when the law of succession and the purdah custom break down.

28. The reason for hoarding being so strong it is apparent that the forcing of gold into circulation and thereby making its acquisition simple is fraught with danger.

## V.—*The Formation of a Central Bank.*

29. Since the last inquiry on Indian Currency and Finance in 1898 the Presidency Banks have made great progress:—

| | March 1898. | | May 1913. | |
|---|---|---|---|---|
| | Capital and Reserve. | Private Deposits. | Capital and Reserve. | Private Deposits. |
| | Rs. | | Rs. | |
| Bank of Bengal | 283½ lacs | 439 lacs | 385 lacs | 1,608 lacs |
| Bombay | 165 „ | 238 „ | 206 „ | 978 „ |
| Madras | 70 „ | 210 „ | 146 „ | 861 „ |
| | 518½ „ | 887 „ | 737 „ | 3,447 „ |

An increase of 42 per cent. in capital and reserve, and of 288 per cent. in private deposits; the deposits in the Bank of Madras, the smallest of the three, being now only Rs. 26 lacs less than the total deposits of the three Presidency Banks 15 years ago.

30. In spite of this great development there is the annual recurrence of an 8 per cent. bank-rate, followed later for some months by a 3 per cent. rate, showing that banking facilities are imperfect.

31. The chief cause of the great fluctuation is the inelasticity of the currency, accentuated by the withdrawal from active currency by Government of vast sums just at the season of the year when the movement of crops demands an increase. This season, with an 8 per cent. bank-rate ruling in the three Presidencies, no less than Rs. 20 crores (13,300,000*l.*) were so withheld from the market.

32. The remedy for many of the financial ills from which India suffers is the formation of a Central Bank, a bank that would command the full confidence of the Government of India, formed with private capital, the present Presidency Banks being the nucleus. It would have a London office with local boards in London, Bombay, and Madras, with its head office and central board in Calcutta.

33. All Government balances in India and London should be deposited with it. Branches should be opened at all places where there is a head quarters treasury, and cash, therefore, which had been withdrawn from circulation for payment of Government revenue, would immediately be available again for trade purposes.

34. With a chain of branches all over the country the bank could finance without movement of coin a very much larger proportion of the trade than can be financed under existing conditions, and thus reduce the amount of active currency required.

35. The paper currency should be transferred to the bank, and under such control the circulation could be largely increased with a corresponding reduction of the amount of coin in active circulation. Against the increased circulation gold (or sterling bills) would be held in the reserve, where they would be available when required to keep the exchange steady, instead of as at present being lost in hoards, from whence they will never be forthcoming when exchange falls. The bank should also have powers to increase the fiduciary issue within limits, the power to include the issue of notes against sterling bills. This would enable the bank to ease the market either in London or India. With unfavourable conditions in London Council bills would not be sold, but sterling bills would be rediscounted for the Exchange Banks in India. If tight money in India followed, notes would be issued against these bills, the revenue coming in all the time being made available for trade through the bank. With such conditions it would be immaterial whether the Secretary of State's balance in London or the Government of India's balance in India were the larger, as being with the same bank they would be available where most required. Gold would not be unnecessarily withdrawn from London, but all Indian balances would first be devoted to finance India's trade and public loans.

36. The capital for such bank need not be more than Rs. 15 crores (10,000,000*l.*) with power to increase.

The following comparative statement may be of interest:—

| | Capital and Reserve. 1. | Liabilities to Public. 2. | Percentage of 1 to 2. 3. | Specie Reserve. 4. | Percentage of 4 to 2. 5. |
|---|---|---|---|---|---|
| | £ | £ | | £ | |
| Bank of England - - - | 17,700,000 | 95,000,000 | 18·6 | 31,500,000 | 33·1 |
| Bank of France - - - | 9,000,000 | 258,000,000 | 3·5 | 156,000,000 | 60·5 |
| Imperial Bank of Germany - | 12,600,000 | 163,000,000 | 7·7 | 52,000,000 | 31·9 |
| Suggested Central Bank of India. | 10,000,000 | 68,830,000 | 14·5 | 36,500,000 | 53·0 |

(The figures of the banks are taken from statements of December last.)

37. The liabilities to public as shown against the suggested Central Bank include all liabilities of the three Presidency Banks and added thereto the active note circulation and estimated additional deposits by the Government of India. The Specie Reserve is the estimated specie with the Presidency Banks and specie held against the note issue.

# APPENDIX XXV.

NOTE SUBMITTED BY Mr. L. G. DUNBAR, SECRETARY AND TREASURER, BANK OF BENGAL, CALCUTTA.

1. I have had the privilege of studying the memoranda prepared by Mr. Lionel Abrahams, C.B., on—

(1) The Location and Management of the General Balances of the Government of India, and Sale of Council Bills and Transfers.

(2) The proposals for the establishment of a State Bank for India.

2. All requisite information has, I think, been placed before the Commission fully and fairly by Mr. Abrahams, and it seems unnecessary for me to say here more than that if the pronouncement of the Commission be in favour of the principle of a State Bank for India, the Bank of Bengal will be prepared to formulate a scheme for the establishment of a State Bank to undertake—

(1) The duties of bankers to the Government of India and the charge of the Government Balances.

(2) The management of the Public Debt of India.

(3) The management of the Paper Currency.

(4) The management of the Gold Standard Reserve Fund.

(5) The establishment of a London office of the Bank to conduct the sale of drafts and transfers on India to meet the requirements of the Secretary of State, the purchase and sale of securities, the lending out at interest of surplus balances, and generally to undertake banking business of the highest class.

3. In my opinion the capital of a State Bank for India should not exceed 5,000,000*l.*, *i.e.*, Rs. 7½ crores paid up, and the Bank should be formed if possible by an amalgamation of the existing Presidency Banks.

## SUPPLEMENTARY NOTE.

Bank of Bengal, Calcutta,
10th June 1913.

TO THE SECRETARY TO THE ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY.

SIR,

I HAVE the honour to inform you that, in nominating Mr. L. G. Dunbar, Secretary and Treasurer, Bank of Bengal, to give evidence before the Royal Commission on Indian Finance and Currency, the Directors of the Bank of Bengal desire to place Mr. Dunbar's expert knowledge and experience of banking and finance in India at the disposal of the Royal Commission. But they wish it to be clearly understood that any opinions expressed by Mr. Dunbar are his own personal views, and cannot in any way be binding either upon the Board of Directors or upon the shareholders of the Bank of Bengal.

The Directors, however, do authorise Mr. Dunbar to say that they agree with the broad principles enumerated in the letter of 28th May 1913, addressed by the Bengal Chamber of Commerce to the Royal Commission,* and if the pronouncement of the Royal Commission be in favour of the principle of a State Bank for India formed by the absorption of the three Presidency Banks under a reconstructed Bank, the Directors will, in consultation with the Government of India, at once take steps to formulate a scheme and lay the same before the shareholders of the Bank of Bengal for their consideration and approval.

Mr. Dunbar has arranged to start for England on the 26th current and is due to arrive in London about 12th proximo.

I have the honour, &c.,
(Signed) C. E. SHORROCK,
President, Board of Directors, Bank of Bengal.

* *See* Appendix XXVI., page 601.

# APPENDIX XXVI.

STATEMENT OF EVIDENCE SUBMITTED BY CHARLES CAMPBELL McLEOD, ON BEHALF OF THE BENGAL CHAMBER OF COMMERCE, AND AS CHAIRMAN OF THE EAST INDIA SECTION OF THE LONDON CHAMBER OF COMMERCE.

1. I desire to say that I am in accord with the despatch No. 997—1913, dated Calcutta, 28th May 1913, addressed to the Secretary to the Royal Commission on Indian Finance and Currency by the Bengal Chamber of Commerce, a copy of which is attached hereto (*see* Note A., page 601).

2. Briefly summarised, they state that they are of opinion that the existing Currency System is working satisfactorily, and that they are opposed to any changes which do not clearly demonstrate in a practical way that it could be strengthened and improved by any such change.

3. They also recommend:—

(*a*) That the Gold Standard Reserve should be held in London; that no maximum limit should be fixed in respect of it; that a portion of it should be invested in gold securities, or placed on short loan, as at present; and that at least 5,000,000*l.* should be held in gold;

(*b*) That the existing system whereby the Secretary of State sells Council bills and transfers in excess of his needs, in order to meet the convenience of trade, should be continued;

(*c*) That the practice of loaning some portion of the Government balances to bankers, at interest, is reasonable and should be continued;

(*d*) That no steps should be taken at present in the way of coining gold—either the sovereign or any other gold piece—in India; but

(*e*) That, should it be decided for reasons of sentiment to coin gold, a branch of the Royal Mint should be established in India for the coinage of British sovereigns; and that no attempt should be made to introduce any other gold coin into India;

and they give clear evidence in support of such contention. To these I would add my support, and in addition I would like to make the following remarks.

*Central State Bank.*

4. I do not think that an institution of this kind is necessary at present. To begin with, I am of opinion that it would be quite impossible to efficiently control such an institution from one centre, and especially in a vast country like India, where different races have different forms and different ideas of banking. Moreover, with the present Paper Currency in the hands of the Government, there does not appear to me to be any reason for establishing a State Bank. The three Presidency Banks, with the Exchange Banks and the Indian Joint Stock Banks have, up to now, fully met the demands of Indian trade, and are capable of considerable expansion. The premium on the shares of the three Presidency Banks clearly indicates that they are capable of extension, and that capital for a very large increase would be readily subscribed in India. The same would no doubt apply to the Indian Banks, while the Exchange Banks have shown that they have increased their capital and reserves to meet the demands of trade as it increases. It would also, in my opinion, be inadvisable to give an institution of this kind a monopoly of Indian banking.

5. What I think of greater importance is that the attention of Government should be directed to the encouragement of co-operative societies, in order to help the agriculturist and to relieve him of the burden of the usurious *bunnia* and money-lender. A system of this nature would greatly benefit Indian trade, and help to develop more fully the natural resources of the country.

*Capital Expenditure.*

6. I refer to this under the heading of Railway Finance. The policy of "extra caution" is carried too far, and sufficient attention is not given to the consideration of well-considered schemes for irrigation, and capital expenditure on railways. Looking to the relative position of the market price of India 3½ per cent. paper, which stands at 96 per cent. in Calcutta, as against 87 in London, it would appear that there are periods when capital borrowing in India is more advantageous.

*Sale of Council Bills and Transfers.*

7. The existing practice has worked well, and has, I consider, been well handled. So long as Government secure gold value for the sale of these bills and transfers, I do not see why there should be any restriction to the full extent of trade demand.

*Gold Standard Reserve.*

8. The amount to be held in actual gold should not I think be laid down rigidly. At present a minimum of 5 million would appear to be sufficient, but this might quite reasonably be increased to 10 million in future, as the volume of trade increases. The present system of utilising balances by investing a portion in easily realisable securities, and advancing funds on approved first-class securities, is in my opinion sound and prudent.

*Gold Currency and Coinage.*

9. The advance made in the circulation of gold coins in India has not been very rapid, and is confined to the Northern and Western Circle. If gold currency is to become general in India it must necessarily be a slow process in a country accustomed to silver, and at present I do not see that any advantage would be gained by pushing it too rapidly. I am not in favour of coining gold in India. It is not required at present, and the process would be an expensive one; but if coining in India is decided upon, it should be in the most convenient form, and that is the sovereign. A departure to a 10-rupee gold coin would not in my opinion be a sound move, as it would not be of any use for export, while it would tend to destroy the standing of the sovereign, which has now become an international coin, moreover it would undoubtedly encourage "hoarding." There are millions among the Indian classes who could not afford to hoard sovereigns, but who might be tempted to hoard gold coin of lesser value, and there are many millions who would make use of the 10-rupee gold coin as ornaments who would not similarly use the more valuable sovereign.

*Purchase of Silver.*

10. From recent experience it seems highly desirable that purchases of silver should be more regular than intermittent.

*Financial Organisation and Procedure of the India Office.*

11. Without offering any criticism, I would like to suggest that the Financial Committee of the India Office should be composed of the following, viz.:—

(1) An ex-Civilian who has held the position of Financial Minister in India.
(2) An Indian Presidency Bank Manager.
(3) A London Joint Stock Bank Manager.
(4) A retired Exchange Bank Manager.
(5) A Mercantile Man with considerable Indian experience.

*Indian Railway Finance.*

12. The question of Indian railway finance is one that deserves the closest attention at the hands of the Royal Commissioners, seeing that Indian railways have become perhaps the most valuable and remunerative

asset the State possesses. It is an asset which would become still more valuable if satisfactory arrangements were made for providing the capital necessary for its development. It is a factor which is not only in itself remunerative, but renders possible the development of other businesses in India. In this connection, it may be convenient to refer back to March 1907, when Lord Morley received two deputations from the Indian railway companies, and from East India merchants respectively, on the subject of the alleged inadequacy of the existing arrangements for railway traffic and railway finance in India. I had the honour to appear as one of the deputation of East India Merchants. Lord Morley was so impressed with the representations made to him that he appointed a Committee with Sir James Mackay (now Lord Inchcape) as chairman, before which Committee I gave evidence.

13. The Committee's report, dated 5th March 1908, was an exhaustive one, and dealt with every phase of Indian railway administration and finance.

14. Several witnesses before that Committee gave their opinion that the 30,000 miles then open would be, in the near future, increased to 100,000 miles, and the Committee, from the evidence before them, stated :—

> " We believe that even their estimate of mileage is short of what will ultimately be found to be necessary in India, and we are convinced that there will be fruitful fields for large reproductive expenditure on railways in the country for years to come."

The mileage open at present is 33,484 miles.

15. The average annual expenditure that could then be advantageously and profitably incurred was estimated by several expert witnesses to be from 10,000,000*l.* to 21,000,000*l.* annually, and the Committee finally recommended an expenditure of 12,500,000*l.* annually for eight years. If the recommendation had been acted upon, Indian railways would have been in a very different condition to that in which they are now, as I pointed out to the Secretary of State on 10th June 1912, and 3rd June 1913, when he received a deputation from the East Indian Section of the London Chamber of Commerce on the subject of the congestion on Indian railways, due to want of adequate financial arrangements. I annex copies of what I said on both of these occasions.

16. The amounts actually expended for the last five years have been as follows :—

| | £ | |
|---|---|---|
| 1908–9 | 10,045,071 | Including lines under construction and rolling stock. |
| 1909–10 | 8,384,694 | |
| 1910–11 | 7,445,928 | |
| 1911–12 | 7,865,206 | |
| 1912–13 (revised) | 10,214,100 | |

The average annual expenditure has been 8,790,999*l.*

17. During some years the expenditure has been less than the grant given by Government. The reason of such "lapses" is that the amount of the grant has not been known soon enough to enable the railway authorities to make satisfactory arrangements for the economical expenditure of the sums granted.

18. The whole Indian railway system is so dependent on well-considered financial arrangements that it is, in my opinion, necessary to recommend that a very much more liberal and comprehensive policy should be adopted. As a financial asset showing a rapidly increasing enhancement, there is no other enterprise connected with the Government of India which can compare with railways. The returns for 1912 show that after meeting all interest charges on capital outlay, annuity payments, &c., there was a net surplus of 5½ millions sterling. Omitting the item of annuity payments in redemption of capital which is not properly a revenue charge, the true result for the year is a net gain of 6½ millions, with a net addition of 645 miles to the open lines. The significance of such a rapid and substantial increase is surely sufficient to call for a more liberal and far-seeing policy.

19. The diagram accompanying the Administration Report* of railways in India for 1912 clearly shows how the gross earnings of Indian Railways are rising much more rapidly than the capital expenditure, and how remunerative increased capital expenditure has proved. The percentage of net earnings to capital expenditure has been most satisfactory over a long period of years.

20. Sir Guy Fleetwood Wilson, the late Financial Minister to the Government of India, in his last Budget speech, acknowledged the "immense significance" of our railways "as an instrument of general progress, their "necessity for development of trade, their growing, and indeed their momen- "tous importance to the finance of India." He also adds "our responsibility "is all the greater now that they have attained a position of supreme "importance in our financial system."

21. It is a matter of regret that he deprecated, on the same occasion, "any departure from a policy of the utmost caution in railway finance," while at the same time he was dealing with a record surplus return from these railways.

22. I have no hesitation in stating that if the recommendation of the Committee appointed by Lord Morley in 1907 had been carried out; the figures would have by this time shown a very much larger return, and the benefit to the trade of India, as a whole, would have been immense.

23. The railway finance policy has for many years past been very far behind the times. Traffic has overtaken the railways and left them behind it. The demands on Indian railways have quite outgrown the provision made for their betterment and extension, and, it appears to me that if a very drastic change is not made in the arrangement for the regular provision of funds for railway expenditure, India will suffer and her rapidly increasing industries be throttled.

24. The latest reports of Indian railways show a remarkable series of increases in traffic. During the period (nine months) which the several reports cover, the Bombay Baroda traffic increased 200,000 tons, the Great Indian Peninsular 482,100 tons, and the East Indian 1,128,500 tons.

25. In the report issued by the Great Indian Peninsular the following statement appears:—

> "In the nine months under review Rs. 59,99,377 have been spent in quadrupling the line at the Bombay end, in doubling the remaining sections of the Nagpur branch, and in adding to the capacity of station yards, and the same activity must continue until the line is in a position to carry what is offered to it."

26. If the Government finds itself unable to supply the financial wants of the railway system, it is open to them to transfer a part of their interest in Indian railways to companies working the railways, who could supply their own capital in such a way that their action would not interfere or compete with Government issues.

27. Mr. Robertson, after full inquiry into the system of management of railways in India, came to the conclusion that it would be to the benefit of India that Government should lease all the State railways to companies for them to work, and a similar conclusion was arrived at by the Committee on Indian Railway Finance and Administration, which sat in 1908 under the presidency of Sir James Mackay (now Lord Inchcape), and the adoption of this policy would, by freeing them from the cares of management of the State railways, probably enable the Railway Board more efficiently to develop the Indian railway system as a whole to meet the rapidly growing needs of India.

28. The "annual programme," carrying with it an annual allotment, has many objections. It does not allow for a sufficiently broad view to be taken of what is required by the railways. To enable the railways to arrange a comprehensive and economical programme of development, it is necessary that they should have an annual allotment fixed over three or five years of the minimum amount they would have, with such additional amounts given each year, as Government may find possible. This

* Published at Simla by the Government Central Branch Press.

would enable each railway to work economically in carrying out the more important works. The leading companies are most anxious to improve the efficiency of their railways, and only lack the necessary funds for doing so.

29. In this connection I am strongly of opinion that a connecting link between the Railway Board in India and the Financial Department would be of material advantage.

30. It is argued that the difficulties of arranging finance for a period of three or five years is inconvenient, but I would point out that it has never been attempted, nor can I see where any serious difficulty presents itself with such a valuable asset to work upon, and a security that can be pledged, if necessary, outside of the ordinary circle of Indian loans.

31. With the expansion of irrigation schemes, and the natural progress of the trade of India, the call for transport will become more urgent and insistent, and if a policy of foresight is now pursued it will be possible for railways to keep pace with the increase, while on the other hand an over-cautious policy of railway finance will only lead to an aggravation of the difficulties now experienced, and the ultimate cost of setting matters right will be enormously increased.

32. In dealing with railway finance it should be borne in mind that it is equally necessary to help the financial position of the principal ports, which have lately been quite unable to cope with the increased traffic.

33. Finally, I would respectfully urge that the Royal Commission should invite the following gentlemen to give evidence on this most important question of railway finance:—

The Right Hon. Lord Inchcape, G.C.M.G., K.C.S.I., K.C.I.E.
Col. Sir William Bisset, K.C.I.E., R.E.
Sir Frederick Upcott, K.C.V.O., C.S.I. (East Indian Railway).
Mr. John Manson (Bengal Nagpur Railway).
Mr. Robert Miller.
Mr. A. Brereton, C.S.I. (Government Director of Guaranteed Railways).

C. C. McLEOD.

10–11, Lime Street, London, E.C.
18th July 1913.

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APPENDIX A.

*Bengal Chamber of Commerce.*

Royal Exchange Building,
Calcutta, 28th May 1913.

No. 997—1913.

From The SECRETARY, BENGAL CHAMBER OF COMMERCE, to The SECRETARY to the ROYAL COMMISSION on INDIAN FINANCE and CURRENCY.

SIR,

I AM directed by the Committee of the Bengal Chamber of Commerce to address you with reference to certain of the subjects which will be investigated by the Royal Commission.

2. When addressing the Indian Currency Committee of 1898* the Chamber took strong exception to the proposals which the Government of India had made in March of that year. The object of these proposals was to force the rate of exchange more rapidly to 1*s.* 4*d.* for the rupee. Stated very briefly, they were that a gold reserve should be formed by borrowing; and that, if necessary, the redundancy of the currency should be reduced by melting down silver rupees. They were not accepted by the Currency Committee, who recommended that the British sovereign should be made legal tender in India; that the permanent rate of exchange should be 1*s.* 4*d.* for the rupee; that the Indian mints should be opened to the unrestricted coinage of sovereigns; that the exclusive right to coin new rupees should be

* Letter No. 793 dated 16th June 1898, from the Bengal Chamber of Commerce, to the Secretary, Indian Currency Committee. (C. 9376, pp. 17–18.)

vested in the Government of India; and that the profit on the coinage of new rupees should be kept in gold as a special reserve, apart from the Paper Currency Reserve and the Treasury balances. The recommendation that the sovereign should be made legal tender in India was put into operation as from the 15th September 1899. The rupee and the half-rupee, although still remaining unlimited legal tender, thereupon became practically token coins with a value of one-fifteenth and one-thirtieth of a sovereign respectively. The Gold Standard Reserve Fund, to which the profits on the coinage of new rupees were credited, was established as from the 1st April 1900. But the proposal that the Indian mints should be opened to the unrestricted coinage of gold has not yet been acted upon.

3. The Chamber of Commerce, in the letter that I have quoted, fully recognised that the attainment of fixity of exchange was an object of primary importance. And it subsequently acquiesced in the adoption of the measures recommended by the Fowler Committee, as being calculated to attain this end without the disadvantages attaching to the proposals of the Government of India. There is no need to trace in detail the steps that have since been taken to strengthen, and to improve, the system which was thus inaugurated. But, as representing mercantile interests, the Committee cannot fail to be struck with the enormous growth of trade which has accompanied stability of exchange. They do not suggest that the Gold Standard has been the cause of this unexampled development. But it may be, they think, safely assumed that the commercial community, however much they may have been divided in opinion prior to 1898, are now in no way antagonistic to the main principles of a currency system which has brought about fixity of exchange, and under which such marked prosperity has been possible.

4. Although time has thus justified the establishment of the Gold Standard, and falsified the fears of its opponents, the Chamber has recognised for a number of years past that there are numerous questions connected with it which require further examination and elucidation. A consideration of these questions led the Committee nearly six years ago to recommend* the Government of India to move for the appointment of an expert Commission of inquiry. They took exception to the formation, in 1906, of what, until within the last few weeks, has been known as the Silver Branch of the Gold Standard Reserve. Similarly they objected to the diversion to railway capital expenditure of a moiety of the coinage profits. It also seemed to them that the Government were pursuing a hesitating and vacillating policy in the matter of the limit at which the Reserve should be fixed. And they considered that an expression of expert opinion upon the important question of the form in which the Reserve should be held would be of great service both to the Government and to the public.

5. It is, the Committee feel, a matter for regret that their recommendation was not accepted, as much of the controversy which has since arisen might have been thereby avoided. For although at the time they had specially in mind matters relating to the Gold Standard Reserve, the currency question as a whole would doubtless have been examined by the proposed Commission. The matters to which they referred are included within the scope of the present investigation, and they therefore take this opportunity of communicating the views of the Chamber upon the more important of them. It has been urged in some quarters, since the establishment of the Gold Standard Reserve Fund in 1900, that the Reserve should be kept in gold in India. With this view the Committee are not in sympathy. In their opinion the Reserve must be held in London; and, as they pointed out in 1907, it would not be a business proposition to hold a sum of upwards of 20,000,000*l.* in gold coin, or bullion.

6. They maintain that the Reserve must be held in London, because London is the place where it will be required in time of crisis. At such a time imports will be in excess of, or will balance, exports; and Council bills and transfers will be unsaleable. Exchange will fall, and the Reserve will

* Letter No. 1457, dated 6th September 1907, from the Bengal Chamber of Commerce to the Government of India, Finance Department. (Appendix V., pp. 172–4.)

be brought into active operation. In the crisis of 1908 sterling bills were sold by the Government of India, on the Reserve, to the extent of 8,058,000*l.*, and the rupee currency was contracted by Rs. 1,200 lakhs. If the Reserve had been held in India the gold would have had to be exported by the Government; for there is no substantial private export of gold from India when the silver exchange begins to fall. If it is held in London the gold becomes available at once to support exchange. Moreover, the effect which is produced on exchange by selling bills is precisely the same as if gold were exported. Commercial opinion in Calcutta is therefore clearly and strongly in favour of the location of the Reserve in London.

7. With reference to the form of the Reserve the Committee do not, as I have indicated, support the view that it ought to be held entirely in liquid gold. The investment of a portion of it in gold securities is economical; and they would not advocate that the interest should be sacrified. They are fully alive to the argument that in a crisis gold securities may possibly be difficult of realisation. But it is not necessary to assume that there must be a heavy depreciation of sterling securities at precisely the time when the Indian exchange calls for support. The existing system came successfully through the crisis of 1907–08, the interest derived from the securities considerably exceeding the loss on their sale. The Secretary of State has recently decided to raise the sterling assets of the Reserve in London to 25,000,000*l.*, and to hold 5,000,000*l.* of this amount in gold.* For the present a sum of 25,000,000*l.* is probably sufficient, but the Committee would object to it being regarded as the maximum. They take the view that no maximum limit should be fixed, and that the coinage profits should continue to be added to the Reserve. They would also like to see a larger sum than 5,000,000*l.* held in gold.

8. The general cash balance of the Government of India, like the Gold Standard Reserve and the Currency Reserve, has a rupee branch and a sterling branch. The latter is held in London, and the former in India. The enormous growth of the sterling balances during the last four years has furnished matter for much recent criticism. The causes of this great development will be, it is understood, investigated by the Commission; and the Committee of the Chamber desire, therefore, to express their views on the subject. They have given much consideration during the past twelve months to the charges which have been brought against the management of the India Office balances. The charges apparently amount to this:—That many millions sterling of Indian money have been improperly withdrawn from India; that these sums have been extracted from the taxpayer in excess of the requirements of the State; that they have been withdrawn from India for use in London, not in pursuit of Indian interests, but for the convenience of English Joint Stock Banks; and that they have been loaned to these banks at an average rate of interest of little more than 2½ per cent. per annum, while the average rate of interest in the Indian Presidency towns has been above 5 per cent.

9. The Committee of the Chamber have no hesitation in saying that they cannot associate themselves with these charges. In so far as the general cash balance of the Government of India represents the excess of revenue over expenditure it may be said that the money has been extracted from the taxpayer; and, generally speaking, excessive cash balances may be of course regarded as evidence of over-taxation. But the India Office balances are derived almost entirely from (*a*) the proceeds of the sale of Council bills and transfers on India, and (*b*) the proceeds of loans issued in London for providing capital expenditure for the Indian railways. The practice of selling Council bills and transfers in excess of the Budget estimate of the Secretary of State's requirements has been followed for many years; with the consent and approval of the commercial community in India. So far as the Committee of the Chamber are aware, it has never been suggested until recently that the practice is antagonistic to the interests of India. On the contrary, mercantile opinion has always favoured the sales as being a convenience to trade. Nor can the Committee understand how it can be said that the proceeds of the sales have been improperly

* Financial Statement, 1913–14, para. 48. (H.C. 130 of 1913, page 15.)

withdrawn from this country, for the equivalent number of rupees have been liberated from the Indian treasuries and have passed into circulation. The purchasers of the Council bills and transfers do not want gold, but rupees and notes, in India; and if they were forced to ship gold they would exchange it on its arrival for rupees and notes. The only result of discontinuing the sale of Council bills and transfers would thus be that the Government would be forced to receive in India a large quantity of gold, part of which they would have to re-export to England later on to purchase silver for the coinage of new rupees. Such an extravagant procedure as this would be does not commend itself to the Chamber.

10. The practice of loaning the balances to London bankers has occasioned a great deal of adverse comment, but the Committee of the Chamber do not think that exception can be reasonably taken to it in principle. They would certainly object to any proposal for allowing the balances to lie idle in London, and they seriously question if it would be possible to lend large sums in this country. The difficulty in India is the provision of the necessary security, for, except in the case of the Presidency Banks, security of the class offered in the London money market is not forthcoming here to any great extent. That branch of the general cash balance which is held in India is also, like the India Office balances, greatly inflated at present. To suggest a satisfactory method of dealing with it is not easy; but the Committee incline to the view that a partial solution might be found if transfers from revenue to capital expenditure were governed by principles somewhat less rigid than those that are understood to prevail in the Finance Department.

11. The question of coining gold in India has been very carefully examined by the Committee of the Chamber for some time past. It was, as I have already mentioned, one of the recommendations of the Indian Currency Committee of 1898 that not only should the British sovereign be made legal tender in India, but that the Indian mints should be opened to the unrestricted coinage of sovereigns. The Government of India at that time desired to act upon this recommendation, and in 1899 they put forward definite proposals for the establishment of a branch of the Royal Mint at Bombay. These proposals were not, however, proceeded with. Administrative difficulties arose in connection with the proposed branch, and in the meantime the Indian gold-mining companies had made arrangements for the regular sale of their gold outside the country. The question was not again brought prominently forward until it was raised in the Imperial Legislative Council in March 1912, when a resolution in favour of the opening of the Indian mints to "the free coinage of gold in coins of suitable denominations" was moved. The resolution was withdrawn, but in the following May the Government of India asked the Secretary of State to permit them to open one of the Indian mints, preferably that at Bombay, to the free coinage of British sovereigns.*

12. Unfortunately the Government of India did not consider it to be necessary to consult commercial opinion before renewing this particular recommendation of the Fowler Committee. The Indian Chambers of Commerce did not therefore have an opportunity of expressing their views upon it until the publication, at a later date, of the official correspondence. The Secretary of State did not apparently regard it with much favour. He pointed out that the difficulties with reference to the Royal Mint still existed, and in the result he suggested that it might be desirable to produce at one of the Indian mints a separate Indian coin of the denomination of, say, Rs. 10. This course would be, his Lordship said, inexpensive; it would avoid the intervention in Indian coinage operations of the British authorities; and there was reason to expect that the coin would "satisfy "such currency requirements as are not met by the present facilities for "obtaining sovereigns, rupees, and notes."

13. The foregoing seems to the Committee of the Chamber to define the position of the question at the moment. So far as they are concerned they do not consider that it is necessary to coin either the sovereign, or any

* Despatch No. 110, dated 16th May 1912, from the Government of India to the Secretary of State for India. (H.C. 495 of 1913, page 57.)

other gold piece, in India at the present time; and they believe that they are supported in this view by commercial opinion generally on this side of India. Judging from the despatch dated 16th May 1912, the Government of India recognise that gold flows freely into India for the adjustment of trade balances, and that its local coinage would not accelerate the flow. They believe, however, that the sovereign would tend to become more popular if it were coined locally; and that the opening of a local mint would be likely to attract the bullion which is now hoarded in the country, as well as some part of the bullion which is annually imported. They point out also that, although gold coin may be readily converted into bullion in India, there are no facilities for reversing the process. By the adoption of their proposal a free movement would be established, they say, between coin and bullion in both directions. And the effect would be, in their opinion, to swell the volume of sovereigns in the hands of the people, and to increase their active circulation. Such an increase in the circulation would diminish the pressure on the Government of India for the coinage of silver; it would reduce their responsibility for the convertibility of the rupee, and would thus simplify exchange problems.

14. The Committee of the Chamber confess that they are not greatly impressed by these arguments. They think that the Secretary of State took a sounder view of the position when he said, in reply to the Government of India, that "having regard first to the ease with which holders of "gold bullion in India can as a rule exchange it for currency whether "sovereigns, notes, or rupees, if they wish to do so, and secondly to the "probability that the gold imported into India is so imported because it is "preferred in that form rather than in that of coin, the adoption of your "proposal would not be likely to have any considerable effect of the kind "that you anticipate." There is no doubt in the mind of the Committee of the Chamber that the effect of the proposal which the Government of India have made would be negligible so far as regards the objects they have in view. It is of course an admitted fact that the intention in 1898 was that the Gold Standard should be supported by a gold currency; and the first step in this direction was taken when the sovereign was declared to be legal tender. It was doubtless desirable at that time that the Government should signify their intention of coining sovereigns, as a proof that they meant to adhere to the Gold Standard. But after 1898 the position changed with great rapidity. The Gold Standard was soon firmly established, and sovereigns were readily attracted to India. They have continued—except for the break in 1907–08—to flow in until at the present time there is, as the Government of India themselves admit, a very large accumulation in the Currency Reserve.

15. The sovereign is undoubtedly being more extensively used as currency in Northern India, in Bombay, and in part of Madras. But the Committee cannot accept the view that it has yet establised itself as a part of the currency; nor do they believe that its coinage locally would tend appreciably in that direction. The receipts of sovereigns* at post offices and railway stations are a fair indication of the extent to which the coin enters into the daily transactions of the people. But these figures seem only to suggest that when India is prosperous, and can afford to import gold, the people use it to liquidate some of their transactions. It is also evident that, without the aid of a local mint, they can command a larger quantity of gold than they require; for the accumulation in the Currency Reserves proves conclusively that the supply is more than sufficient to meet the

* *Receipts of sovereigns at Post Offices and Railway Stations.*

| Years. | Post Offices. | Railways. |
|---|---|---|
| | £ | £ |
| 1907–08 - - - | 1,358,000 | 1,045,000 |
| 1908–09 - - - | 1,001,000 | 710,000 |
| 1909–10 - - - | 265,000 | 134,000 |
| 1910–11 - - - | 638,000 | 597,000 |
| 1911–12 - - - | 1,363,000 | 1,222,000 |

demand. On the other hand there seems to be no reliable estimate of the quantity of gold which would be available for coinage. India is of course a producer of gold to a limited extent, but it is understood that her supplies are not available for the Indian mints. And even if she were a considerable producer a mint would not be apparently a necessity, seeing that South Africa—the largest producer in the world—has no mint.

16. As I have already explained, the Committee do not consider that the coinage of any gold piece should be at present undertaken in India. To compel the Indian taxpayer to meet the cost of producing sovereigns when the number of these coins already in the country is in excess of requirements appears to them to be an ill-advised policy. To coin a distinctively Indian gold piece, smaller than a sovereign, would be also in their opinion a mistake. The objections to such a coin were clearly defined in the Government of India despatch dated 16th May 1912 (*see* H.C. 495 of 1913, page 57), and they are, the Committee think, conclusive. The mere fact that for a long time to come an Indian coin would have to be treated as bullion when exporting is of itself a convincing argument against the proposal. If the coining of gold is to be undertaken at all, the Chamber would strongly urge that the recommendation of the Currency Committee of 1898 be followed, and that the British sovereign be coined at a branch of the Royal Mint to be established in India.

17. The Committee have not thought it to be necessary for them to deal with a proposal which has been made recently in the course of the public discussion of the currency question. This is that gold should be the principal currency of India, and that silver should be restricted in amount as legal tender. The Government of India definitely stated, in the despatch quoted in the last paragraph, that the coinage of gold would not involve any "disturbance of the ordinary course of our recognised and established currency procedure." And although it may be that eventually silver will be restricted as legal tender, that eventuality seems to the Committee to be so far distant that there is no need for the matter to be considered at present.

18. Finally, I am to notice briefly the proposal for the establishment of a central State Bank in India. Those who support this proposal claim that a State Bank would extend the circulation of paper money, that it would make the Government cash balances in India more readily available for the financing of Indian trade, and that it would have other material advantages over the Presidency Banks. It is not the intention of the Committee to discuss these points at present. Nor do they wish to offer an opinion on the project, as at this stage they prefer to keep an open mind. But the questions which will arise in connection with it are of considerable intricacy; and the Committee suggest that, if an authoritative pronouncement is to be made upon it, the Royal Commission will require to take evidence, not in London only, but in the Presidency towns of India also. It is admitted that advantages would result if a great State Bank could be formed by the amalgamation of the Presidency Banks. There are, however, two outstanding difficulties that will obviously require examination. The first is that a central Bank would be unwieldy. In discussing Indian financial questions it must not be forgotten that India is more than a country. It is a continent with many races and communities, who differ widely from each other in their commercial interests and banking customs. And it has been found in actual practice that, from a purely money-lending point of view, the spheres of influence into which the Presidency Banks have grouped themselves leave little to be desired. The second objection is as to the location of the central control. To the Committee of the Chamber it is obvious that the control of such an institution as a State Bank could only be satisfactorily and remuneratively exercised from either Calcutta or Bombay. This side of India would naturally insist upon Calcutta, and Western India would presumably urge the claims of Bombay. The arguments in favour of Calcutta are identical, it may be noted, with those which have weighed with the Government of India in deciding to retain the office of the Head Commissioner of Paper Currency in this city.

19. It will be evident from what has been written that the Committee of Chamber are of opinion that the existing currency system is working satisfactorily, and this being their view they are disposed to deprecate changes which may or may not be calculated to strengthen and to improve it. Their recommendations, briefly summarised, are as follows :—

(*a*) That the Gold Standard Reserve should be held in London; that no maximum limit should be fixed in respect of it; that a portion of it should be invested in gold securities, or placed on short loan, as at present; and that at least 5,000,000*l.* should be held in gold;

(*b*) That the existing system whereby the Secretary of State sells Council bills and transfers in excess of his needs, in order to meet the convenience of trade, should be continued;

(*c*) That the practice of loaning some portion of the Government balances to bankers, at interest, is reasonable and should be continued;

(*d*) That no steps should be taken at present in the way of coining gold—either the sovereign or any other gold piece—in India; but

(*e*) That, should it be decided for reasons of sentiment to coin gold, a branch of the Royal Mint should be established in India for the coinage of British sovereigns; and that no attempt should be made to introduce any other gold coin into India.

I have, &c.,
H. M. HAYWOOD,
Secretary.

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## APPENDIX B.

*Extract of remarks made by C. C. McLeod, Chairman East Indian Section, London Chamber of Commerce, who waited upon the Secretary of State with a Deputation on 10th June 1912.*

1. My Lord, I must in the first place ask you to accept our grateful thanks for consenting to receive this small deputation from the Indian Section of the London Chamber of Commerce, when we well know how valuable your time is. The deputation is a small one at your request, but is no criterion of the great interest taken in the question. I venture to hope, however, that when we have put our case before you, you will recognise that the question is one of great importance and pressing necessity.

2. The shortage of wagons and rolling stock on Indian railways is not a new phase: it has been more or less acute for the last fifteen or twenty years. It has been the subject of several enquiries, and a very strong case was put before your eminent predecessor, Lord Morley, in March 1907, by a deputation of Chairmen and Directors of Indian Railway Companies, accompanied by a deputation of East Indian merchants from the London Chamber of Commerce. Lord Morley appointed a Committee to enquire into the causes, and increased the allotment to a considerable extent, but the effect was short-lived as we find ourselves in a very much worse position to-day than we were at that time—now fully five years ago.

3. It is very difficult to describe the effects of the present congestion, and the losses incurred all round. In Calcutta the shortage of coal-wagons has been most acutely felt. Many of the jute mills during the last two or three months have had only a few days' stock of coal in hand, whilst steamers often took from seven to twenty days before they were properly loaded with coal. The evidence of Colonel Gracey (who recently visited India, and who is Chairman of the Bengal and North-Western Railway) in a recent speech, is to the effect that he found all the stations choked with goods owing to the want of rolling stock. Such evidence, coming from one possessing his expert knowledge and mature experience, is reliable and conclusive. He considers the railways are losing money, because they are not properly equipped with sufficient wagons and rolling stock. Lord Curzon, during

his term of office as Viceroy of India, was so struck with the force of the arguments put forward by the Bengal Chamber of Commerce, that he deliberately curtailed railway extensions in order to provide more funds for increasing rolling stock and doubling lines.

4. The letter of the 21st May last, forwarded by Messrs. Ralli Brothers, and signed by a number of important East Indian merchants, acknowledged by you on the 28th ultimo, points out very clearly that the Indian railways are quite unable to cope with the traffic, and that conditions obtaining at present are as bad, if not worse, than they ever were, owing to the scarcity of wagons and rolling stock, and also to other causes which require investigation. We have also evidence by recent advices that consignments of seeds and grain are being refused at stations on the Bengal and North-Western Railway, where their line is already blocked with stocks of grain piled up on the stations, and quite unprotected. A joint telegram was received from the Chambers of Commerce of Bengal, Bombay, and Karachi on the 28th May, a copy of which was forwarded the following day to you. It read as follows:—

> "Bengal, Bombay, Karachi Chambers earnestly request Indian Section protest energetically to Secretary of State regarding inability of Indian railways to handle traffic. Congestion in every direction and present position deplorable owing to insufficient funds for equipment having been allotted for some years. Largely increased grants for several years indispensable. Consider present method financing railways unsuitable; merchants and trade generally seriously inconvenienced. No immediate relief apparently possible. Question must be dealt with promptly or Indian trade and agriculture will seriously suffer in future. Trade requirements now far ahead of railway facilities."

Also the following from the Indian Mining Association, Calcutta, on the 14th May 1912:—

> "Indian Mining Association heartily endorses your action. Wagon shortage position growing worse, remedial measures urgent, no action yet taken by Government."

And on the 6th instant from the Bombay Chamber of Commerce:—

> "Regarding your interview with Lord Crewe, June 10th, reference Administration Indian State Railways. This Chamber strongly emphasises present difficulty as due to insufficient funds having been allotted for equipment, doubling of lines, efficient water supply, larger stations and marshalling yards and increased facilities generally for moving traffic. Abnormal increase number of wagons to be deprecated until railways are equipped efficiently to deal with them. Important question is that lines should be thoroughly equipped for working traffic, and for this largely increased funds necessary over series of years to complete comprehensive programmes. Present supply wagons can do much more work if this is done. Higher interest might be offered for loans for this special purpose."

5. This is surely conclusive proof, coming from these three great centres of commerce and sent with the full sense of the importance of such a communication, that some strong and prompt measures are urgently necessary. From the point of view of the railways themselves, I would venture to point out that the advantage would be very great, and if I may be permitted to quote the following figures, they will, I think, explain themselves.

6. The average gross earnings for the four years ending with 1896 was about 2½ crores, and loss to the Government was 204 lakhs of rupees. In 1910 the gross earnings reached nearly 5 crores; on the other hand the loss to Government ceased with the year 1901, and since then the gain has steadily risen, and for the last eight years shows, I believe, an average of about 200 lakhs, thus proving conclusively that a generous policy in connection with the equipment of Indian railways would be well repaid.

7. The trade and commerce of India has shown a continuous increase for many years, and there is ample evidence that the facilities for handling it by the railways are now, and have always been inadequate. I need

hardly point out that this state of things is calculated to throttle growing industries in that vast country, and prevent the natural expansion which is so essential to its prosperity.

8. I may add, my Lord, that opinion is somewhat divided as to whether a large increase in rolling stock would meet the difficulty if it were not accompanied by better facilities for handling the same. I make this qualification as it is well known and understood that "congestion" on railways does not necessarily mean an actual scarcity of wagons, but rather an accumulation of wagons at changing stations and terminal points, which prevents them being made use of up and down the line The principal causes which lead to this cannot be put down solely to insufficiency of rolling stock, but may be easily accounted for by want of forethought and unpreparedness, by insufficient capacity in the line itself, due to want of sidings to permit of expeditious crossing of trains, or to inefficient watering arrangements, which increases the stoppage of trains at roadside stations, or it may be due to insufficient facilities at terminal points. It is most important, however, to have this point settled definitely. To do this efficiently, it would be necessary in my opinion to appoint experienced special officers to go into the whole question on the spot, and to report fully on this very important point, and I find this view is one that commends itself very strongly to those who are interested. It would be desirable that the reference should be specially directed to ascertaining the methods by which the existing rolling stock may be more quickly handled, as well as the carrying capacity of existing open lines, and to endeavour if possible to form a definite opinion as to the adequacy or otherwise of the rolling stock and present facilities, both for existing traffic or increased traffic that is likely to be handled in the near future.

9. The question of speeding up freight trains would also require looking into, as evidence adduced in Calcutta at a recent discussion showed that the average speed of coal trains was only about 6 miles per hour, and the "Sind Gazette" of the 15th May states that the average speed at which goods trains are now travelling between the Punjab and Karachi is only about 3 or 4 miles an hour. In the meantime we would strongly urge that the number of wagons under orders should be augmented by an "urgent" addition of at least 3,000 wagons.

10. To summarise our requests, they come to this :—

To appoint two or more officers experienced in railway traffic handling to investigate and report as to whether the congestion all over India is due to actual shortage of wagons, or inefficient handling.

To provide an "urgent" supply of wagons as indicated.

To consider the question of reserve wagons.

To consider the advisability of discontinuing extensions of new lines, consolidating available funds towards increasing the efficiency of existing lines.

To consider the proposal by the Bengal Chamber of Commerce as to the quadrupling of the line between Asansol and Bandel.

To consider the quadrupling of the Great Indian Peninsula line from the "Ghats" to Bombay, and providing additional sidings and crossings to facilitate transport into Bombay.

This, my Lord, closes my case, and after my colleagues have spoken we will look forward with hopeful anticipation to receiving an assurance from you that we have not approached you in vain.

## APPENDIX C.

*Extract of Remarks made by C. C. McLeod (Chairman, East Indian Section, London Chamber of Commerce), who waited upon the Secretary of State with a Deputation on 2nd June* 1913.

1. My Lord, I have again to express to you our great satisfaction for the interest you have shown in this important question of the congestion on Indian railways by consenting to receive a small deputation to-day.

2. In order to arrive at the very grave importance of this question, I trust you will permit me to refer to our interview on the 10th June last year on the wider question of congestion all over India, as akin to the smaller, yet no less important, subject to which I shall venture to call your attention to-day in connection with the Bengal coal-mining industry.

3. In replying to the deputation on 10th June 1912, your Lordship expressed sympathy with the case as we then put it before you, and we gratefully acknowledge the efforts that have been made in the interval in meeting our reasonable demands. The appointment of Sir Henry Burt as an expert to inquire into the causes of congestion at various centres has given lively satisfaction, and the statement which, with the permission of the India Office, I telegraphed to India last January, that 12 millions would be provided for the 1912–13 programme, also caused general satisfaction, if only as an indication that the important question was being seriously considered and dealt with.

4. But, my Lord, you will pardon me if I state with all sense of responsibility, and based on inquiries recently made by me personally in India itself in February and March last, this annual sum of 12 millions is quite inadequate. Such a sum might have been sufficient had it been available annually from 1907 till now. It is, however, quite insufficient to overtake the arrears in provision of equipment and betterment of open lines and to develop fresh areas. The traffic has increased, and is likely to further increase, to such an extent that provision will have to be made for much larger grants; not less than 15 millions a year should be provided for the next five years if the prosperity of India is not to be seriously hampered and her growing industries throttled. Moreover, my Lord, the manner in which the grants are made tends to minimise their utility so much that the effect of spending large sums within a specified period is partially lost. I refer to the practice of an annual Budget for expenditure within the financial year, and the "lapses" which must frequently occur when the period between the sanctioning of estimates and the conclusion of the financial year is sufficient to enable all the money to be economically spent. I am aware that your Lordship has sanctioned some relief in permitting a portion of the orders for English material and stores to be placed prior to the commencement of the financial year. If, however, this arrangement could be extended, and a programme over a period of three years considered and funds allotted, I feel confident that the Railway Board in India and the Boards of the various Indian railway companies in London would be able to utilise the funds in a much more effectual way, as they would be in a position to arrange in advance for a continuously constructive and expansive policy, which the present system of allotting funds precludes them from doing.

5. The mercantile community in India is alarmed and uneasy as to the result of the statement made by the Financial Member of the Governor-General's Council in reference to the railway programme in his last Budget speech, urging caution in regard to railway expansion and expenditure. In view of the effect such a statement may have on the Home Government, it is my duty to point out that trade expansion in India during the past four years has shown beyond doubt that any such fears are groundless, and it may not be out of place to point out here that if the expansion of Indian exports continues on the average of the past 10 years the trade may easily double itself in about 12 to 15 years, a possibility that requires not only a bold railway policy, but also a bold and far-seeing policy of port expansion to meet it.

6. An instance of this procedure is shown by the announcement made by the East India Railway alone, consequent on the issue of the Coal Conference Report, when the agents of that company authorised their agent in Calcutta to submit to the Government, for early sanction, a revised capital programme covering the financial years 1913–14, 1914–15, and 1915–16, to include the following special additional works and rolling stocks:—

10,000 wagons with corresponding number of engines and brake-vans.

The remodelling of the Howrah goods yard, at present at Howrah, to another site lower down the river.

The construction of a direct double line from Burdwan to Howrah, having necessary connection with the proposed new coal yard.

The doubling of the existing line from Dhanbaid to Katrasgarh.

The addition of a third rail, making two down lines from Burdwan to Bandel.

They also propose the construction of a large marshalling yard at Bandel and certain other minor works, the whole programme involving an outlay roughly estimated at Rs. 7½ crores, or, say, five million pounds sterling.

They considered this important programme necessary, and if such a programme is sanctioned, and provision made for the necessary funds, an important move in the right direction will have been accomplished. If, on the other hand, the programme has to be cut down for want of funds, the position will become more serious than ever. I have no doubt the same would apply to the Bengal, Nagpur, and other important railways.

7. I now come, my Lord, to discuss the question of the memorial, dated 4th November 1912, from the Indian Mining Association in Calcutta. It sets out its own case so clearly that comment from me would only be taking up your valuable time to no purpose, but I would like to emphasise the statements therein contained by adding that they were carefully considered by the leading business men in Calcutta, with a sense of the importance of such a communication, and if your Lordship has had time to peruse the printed minutes of the meeting attached to the memorial, you will, I venture to think, arrive at the conclusion that the demands of the Bengal coal trade are not unreasonable, as the result of the Conference held in October clearly and definitely shows. That Conference was presided over by the President of the Railway Board, with the senior Government Inspector of Railways, the Railway Board Mining Engineer, the Vice-Chairman of the Port Trust, representatives of the largest Indian railways, the President of the Bengal Chamber of Commerce, and two members of the Mining Association. Their report covers 90 pages of printed matter, and embodies no less than 50 recommendations, covering the points of complaints. These recommendations involve large sums of money, and I would especially plead that your Lordship should consider the very great importance which the carrying out of these improvements means to the coal industry, and not only to this industry alone, but to many others which are dependent for their existence on regular supplies of fuel. The memorial has behind it the support of every Chamber of Commerce in India, who recognise that this great industry is being throttled, for want of transport facilities, to which they consider they are entitled. It may interest you to know that the largest railway system in India, the East Indian Railway, derives over 40 per cent. of its large earnings from coal traffic.

8. There are several further points that require consideration in connection with what I have said. The manganese ore merchants, owing to want of facilities for transport to Bombay, requested a levelling of the transport charge to Calcutta to enable them to utilise that port if opportunity offered, but I understand that the point was not conceded, owing to some opposition from the Bombay side. It is not my province to urge the claims of Calcutta against Bombay, or *vice versâ*, but on broad lines it is my duty to mention any points which might tend to relieve the tension on railway congestion. Owing to the cheaper freights from Bombay to Europe, Bombay must always have this trade on equal rail charges, but

I consider it desirable that manganese ore merchants should be allowed to have access at the same charge to an alternative port when the railway leading to the other port is congested.

9. Another point that presents itself is the report openly stated that railways on the western side of India have contracted for coal supplies from South Africa, due, it is asserted, to the uncertainty of direct supplies from Indian collieries, and this, your Lordship will admit, is a serious matter to these collieries, more especially as their inability to supply coal is directly due to want of transport facilities.

10. I will leave my colleague, Sir Ralph Ashton, to deal with the more technical part of the memorial, as he was Chairman of the Indian Mining Association for many years, and a special member on the Viceroy's Imperial Council when the Mining Act was under consideration.

11. It may not be out of place to mention, my Lord, that there is a growing feeling that if some or all of the State-owned railways were made over to companies, who could make their own financial arrangements for increased capital, irrespective of the effect it would have on Government securities, the position might be relieved without material loss of revenue to the Government; a revenue which is annually increasing and assuming very large proportions.

12. This was recommended by Mr. Robertson, after a full inquiry into the system of railway management in India, and again emphasised by the Committee appointed in 1908, under the presidency of Sir James Mackay (now Lord Inchcape).

13. We are fully aware of the difficulties Government have in arranging finances on the considerable scale that the very necessary reforms on Indian railways require, but we hope and trust that a special effort will be made to meet these demands liberally, in order to avert the danger that is now threatening the many growing industries in India generally, and the coal trade in particular, which is so acutely dependent on railway transport.

14. I would like to add that I received the following telegram from Calcutta on Saturday:—

> "Since presentation of memorial there has been no substantial improvement in wagon supply. Consequently stocks of coal at collieries are heavy. Railway Board meantime purchasing foreign coal largely for this and next year. It is rumoured that scheme for development of railway-owned collieries is to proceed."

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## APPENDIX XXVII.

STATEMENT OF EVIDENCE SUBMITTED BY MR. THOMAS SMITH, CAWNPORE. INDIAN EXPERIENCE EIGHTEEN YEARS, FOR SEVENTEEN OF WHICH HE WAS AGENT OF THE ALLAHABAD BANK, LTD., AT CAWNPORE AND CALCUTTA. A FORMER VICE-PRESIDENT OF THE UPPER INDIA CHAMBER OF COMMERCE, CAWNPORE.

### I.—*Balances.*

1. During the years 1910, 1911, and 1912 the balances in London were abnormally high. That they were deliberately accumulated, as has been wildly suggested, for the convenience of the London Money Market or a certain interested section, and to the hurt of India, no reasonable person will allow.

2. These balances accrue under conditions difficult to gauge, and, in the case of loans raised, may represent a large temporary addition. Keeping in

view the complexity of regulating them, the only criticism of importance that I would offer is that the India bills paid off in December 1912 might well have been paid earlier.

3. When the balances were at their highest, in June 1911 and June 1912, India can scarcely be said to have suffered any hardship, for none of the money was wanted there, and could not have been employed in the dull season, while in London a rate can always be obtained.

4. It is possible, however, that in the busier months in India a portion could have been employed to better advantage than in London and for the future such investment is worth trying. I deal with this later under the subject of Banking.

5. Between the very low balances of a little over a million following the crisis of 1907–08, and the very high balance of 19,000,000*l.* in June 1911 and 1912, there would seem to be a happy medium which it should be the aim of the India Office to achieve.

6. So far as the balances in India are concerned, they appear to have been more or less normal, save in 1913, when they were exceptionally high.

## II.—*Banking.*

7. I do not favour the creation of a Central Bank in India. The size of India is against the efficient working of such a bank. As Sir T. W. Holderness observes: India is a continent, not a country, and a continent of infinite variety. It is not one country as we know countries in Europe, but many countries. It is larger than Europe without Russia.*

8. Three of these "countries" may be said to be Bengal, Bombay, and Madras, where the Presidency Banks have located themselves, and it may truly be said that the nature and the business of each is of "infinite variety." Each has a distinctiveness of its own; the rate in each is often different, *e.g.*, on 2nd July the rates were 4 per cent., 5 per cent., and 6 per cent. respectively.† Each aims at the needs of its particular sphere, and all three banks have prospered. In their separate working they have developed along their own lines; with an intimacy born of a specialised study of their own sphere, they have adapted themselves to new opportunities, and all for the best. The prosperity of each has been an incentive to the other. This healthy rivalry would be lost in a Central Bank, nor would the control of a Central Board, even with sub-boards in each Presidency, be as efficient as at present. Initiative and the sense of responsibility are more likely to be prominent in a separate and independent board.

9. In 1867 the need for a State Bank was advanced. We have got on very well without it and so have the banks themselves. Since then their capital and reserves have more than doubled, while their deposits are six times what they then were.

10. In 1898 the proposal was again revived, when it was urged that such a bank was necessary for "the success of the recommendations of the Currency Committee." As the carrying out of these recommendations has been handled with ability by the officers of Government under difficult circumstances, and is being adequately performed under present arrangements, the case for a State Bank has not been made out.

11. I consider the existing banking facilities capable of adequate expansion on present lines. The growth of banking deposits in the Presidency, Exchange, and Joint Stock Banks in the ten years ending 1910 from 23,646,000*l.* to 54,875,000*l.*, or at the rate of 13½ per cent., is evidence of expansive power. It is a hopeful sign to see money in the country flowing freely to the banks for investment. The increase, too, has been achieved in spite of a reduced rate of interest allowed by the banks, varying from ½ to 1 per cent. in the case of the Presidency, Exchange, and the larger Joint Stock Banks. Banking in India is yet in its infancy, and with the great industrial awakening greater developments must be looked for. But there is one dark spot: mushroom

* Pages 13–15 of "Peoples and Problems of India," by Sir T. W. Holderness, K.C.S.I., published by Williams and Norgate in the Home University Library.

† Since reduced to 3, 4, and 5 per cent.

institutions calling themselves "banks," with excessive nominal share capital but little paid up, have been springing up with amazing rapidity. Writing to the Upper India Chamber of Commerce in 1910 urging legislation, I said of them:—"They are 'banks' only in name, and are trading on the "confidence of the depositor who is little versed in money matters but is "attracted by the name 'bank' and wishes to earn some interest on his small "store. They constitute a real danger, because if one fails others will follow, "and the timid depositor, unable to discriminate between the sound and the "unsound concerns, will make haste to get back his money from whatever bank "it is in, and his confidence in banking institutions, thus rudely checked, "will take years to win back."

12. Addressing the Sixth Industrial Conference at Cawnpore last year, I spoke at greater length of these "banks" and the need for banking legislation. A copy of the address, taken from the "Pioneer," is appended for reference (*see* page 618).

13. Legislation seems assured and it will not come a moment too soon. With it we may look for a more healthy development of joint stock banking in India, and, if I mistake not, a continuous growth in the banking capital available for the development of the country's industries.

14. The Exchange and the better Joint Stock Banks may very naturally view with suspicion the establishment of a Central Bank. They are fulfilling an important rôle in financing the trade of the country, and the interposition of a Central Bank would conceivably arrest their progress.

15. Below are the deposits and rate of increase for the decade ending 1910:—

| —— | 1901. | 1910. | Rate of Increase. |
|---|---|---|---|
| | Lakhs of Rs. | Lakhs of Rs. | Per cent. |
| Presidency Banks - - - - | 1,463 | 3,234 | 121 |
| Exchange Banks - - - - | 1,183 | 2,431 | 105 |
| Joint Stock Banks having more than 5 lakhs capital and reserves. | 900 | 2,566 | 185 |
| Rs. | 3,546 | 8,231 | |

16. In consequence of the high bank rate in India at certain seasons of the year, it is sometimes urged that banking facilities are insufficient. But it is too often forgotten that for as many months in the year money is a drug on the market, and bankers' swollen balances are a nightmare to them. Temporary borrowers must expect to pay for their finance in the busy season, for they only make use of it for the short time that it suits them, and then throw it back on the banks. A steady borrower all the year round can get his requirements in the vicinity of 6 per cent., which does not compare at all unfavourably with the same borrower from the home banks. In well banked Scotland, the average rate for overdrafts during the last three years has been 5⅜ per cent. The average rate of the Bank of Bengal is usually about 6 per cent. At present the rate is 3 per cent. as against the Bank of England rate of 4½ per cent., while in Scotland the rate for cash accounts has been 6 per cent. since 17th April last. Rates for steady advances in India have fallen 1½ to 2 per cent. in my experience of 18 years, while the interest allowed on deposits has fallen, generally speaking, 1 per cent.

17. Relief to the money market in the busy season would be afforded by loans to the banks from the Government reserves and balances, but a Central Bank is not needed for this. It might be convenient to fix a limit of Rs. 5 lakhs as the minimum amount to be loaned; any bank depositing sufficient Government securities to be accommodated; the loans not to exceed three months, and to carry interest at a rate to be fixed by Government from time to time, but approximately 5 per cent.

18. In a measure the sale of Council bills in excess of the Secretary of State's requirements gives relief in this respect, but at the same time it should be possible to borrow direct in India. Government have expressed

the view that such loans are not advisable, as (1) borrowers might default and the sale of securities might injure the annual Government loans, and (2) the calling in of large loans might be difficult and dangerous. These seem to be mistaken fears; with the class of borrowers contemplated, there would be little possibility of default, or of Government loans being jeopardised, and as the advances would be time advances the banks would regulate their arrangements accordingly.

19. I see no necessity for any change in the conditions now prescribed for the Presidency Banks. They can make a fairly wide use of their present limitations. Some years ago they sought access to the London money market, but general opinion was against this.

### III.—*Capital Expenditure.*

20. I think more loans might with advantage be raised in India. Roughly, only half of the rupee debt is held by Indians; politically it would be good if they had the opportunity of holding more, and the raising of more loans in India might have this tendency. But I do not consider that India could provide more than an occasional loan of, say, 4,000,000*l.*, in addition to the annual loan of roughly two to three crores, while for larger borrowings at any time London must be looked to. Unfortunately during the last 10 years India Stock has shown a rapid decline, 3½ per cent. Stock having fallen from 109 in 1903 to 87 in 1913. Much of this must have been in sympathy with the fall in Consols and other gilt-edged securities; some of it may have been due to "unrest"; or it may be that we have been asking London for too much. I have not the latest figures available, but am under the impression that in the last 10 years, say, borrowings in Stock have increased at twice the percentage of rupee borrowings. If that be so, further issues of moderate amount might be tried in India.

### IV.—*Sale of Council Bills and Transfers.*

21. I approve of the existing practice in regard to the sale of Council bills and transfers. These sales work smoothly; they satisfy the requirements of trade, in that rupees and notes which are required in India are released there against gold paid in London; and they are economical, inasmuch as they obviate the expense of the actual export of gold from London, and its subsequent re-export from India.

I do not favour the transfer of the business of exchange to a Central Bank.

### V.—*Exchange Value of the Rupee.*

#### (a) *General.*

22. The fixing of the rupee at 1*s.* 4*d.* has been of benefit to the trade of India, and the enormous increase in trade must in large measure be attributed to the fixity of exchange. The ruin which it was thought by some in 1898 would overtake tea, cotton and opium, has not yet come about. The tea industry has prospered, cotton mills have increased 40 per cent. in number and capital, while opium is dying by other means than exchange. Fixity of exchange has justified itself. I do not favour a return to the free coinage of silver.

23. The large sums of gold annually absorbed by the Indian public may be regarded as proof that much of this is passing into hoards. In the last 10 years about 70,000,000*l.* in bullion and 57,000,000*l.* in sovereigns seem to have passed into the hands of the public. How many of the sovereigns remain in circulation it is difficult to say. Circulation is increasing, but the increase is more marked in the Punjab, I think, than elsewhere. In the busy season my experience is that remittances from Cawnpore to Delhi are in sovereigns only. In Cawnpore they pass freely. I remember in 1899 or 1900 when they were generally at a discount of two to four annas, but the Cawnpore bazaar in the main takes rupees. I have noticed, however, that sovereigns sent to a cotton district in the United Provinces do not return. Presumably, after payment of revenue, &c., the cultivator retains the balance,

being his profit, and hoards them as was suggested by Mr. Gillan in one of his reports. Ram Bux is probably beginning to realise that his savings are better held in sovereigns than in silver rupees, and I think there is little doubt, as Mr. Gillan further suggests, that many sovereigns go into the melting pot. They can be more readily got than gold bars and in smaller quantities than bars, and their weight and value are known. Indians have told me that they like sovereigns for these reasons and because the alloy in them gives the ornaments a durability exceeding pure gold.

24. The sale of Council bills at 1*s.* 4⅛*d.* per rupee must tend to keep gold from coming to India. In so far as this diminishes the supply of gold in India available for the public demand, and in so far as that demand is for circulation and cannot be met, the action may be said to keep gold from circulating in India.

25. On the whole I favour the opening of a mint in India for the free coinage of gold. I believe it to be one step further in the development of our currency system. I am in agreement with the views of the Government of India on the subject. I do not approve of a 10-rupee gold coin; it would be little bigger than a half-sovereign, and this coin does not find favour in India. The coin to be minted should be a sovereign identical with the British sovereign.

### (b) *Gold Standard Reserve.*

26. I concur in the necessity for a special Gold Standard Reserve. On no account would I favour, at present, the use of the profits on coinage for ordinary or capital expenditure. The prudent course is to utilise these profits in strengthening the Reserve, and no diversion of these profits to any other purpose should meantime be countenanced. Anything that strengthens the Reserve conduces to the stability of exchange—the supreme object to be kept in view. The stronger the Reserve, the less need would there be of recourse to a special loan. Such a loan would indeed go badly in a crisis like that of 1907–08 and India would suffer.

27. I would place no limit at present up to which the Reserve should be accummulated. Ten years hence or so Indian currency affairs will most probably again come under review, and it will then be time to take stock of the position and say whether the Gold Standard Reserve is sufficiently high. Till then, I would let it go on being steadily added to. If there be error in the treatment of the Reserve let it be on the side of safety.

28. I do not approve of the diversion in 1907 of over 1,000,000*l.* from the Reserve towards railway development. For the reasons stated above I think it was wrong. It was contrary to the explicit recommendations of the Fowler Committee. That it was retrograde is shown by the fact that such a diversion has not been repeated. The mistake should be wiped out by a re-transfer to the Reserve. The Reserve should be held partly in gold and rupees and partly in securities. The balance on 31st May last was over 22,500,000*l.*; of this, under 1,750,000*l.* was held in gold, and 1,000,000*l.* at short notice. In my opinion these amounts are too small. About 16,000,000*l.* was invested in British and Colonial Government Securities and Corporation of London Bonds. I consider this too large, and in proportion to the total fund it is excessive. Circumstances might necessitate the sale of a considerable portion at a most awkward time, with resultant loss. Probably the desire to earn a larger interest on the Reserve has actuated these investments, but interest is of secondary importance.

29. I would suggest that the Reserve be held as follows:—

Half in gold or rupees, the bulk to be held in London in gold only, while gold or rupees may be held in the Indian Branch, as circumstances warrant.

Half to be invested in securities, short loans, &c., in London, but, preferably, in short loans.

30. The silver branch of the Reserve has, I think, been justified, and in normal times it can be kept at a moderate limit, but the bulk of the fund should be held in London. It is there that it is wanted, for the maintenance

of exchange, and it is there that it will be required in a time of stress. The Secretary of State has it at hand for his requirements when exchange is against him, and, on the other hand, it is available for Calcutta drawings on him, thus obviating the necessity for the actual export of gold from India, if the bulk of the Reserve was located there.

31. The gold held in London should be ear-marked at the Bank of England.

(c) *Paper Currency Reserve.*

32. With the growth in the Note issue—the circulation having doubled in the last 12 years—I consider the invested portion might with advantage be increased beyond the 14 crores now prescribed. Instead of increasing periodically by stated amounts, as has been done in the past, I think it might be provided that one-third of the total note issue may be held in securities. On present figures this would mean an increase of the invested portion by 50 per cent. This extra investment to be in sterling securities, and, preferably, in loans in India to banks in the busy season.

33. I do not think it would be expedient to attempt to fix the relative proportion of gold and silver in the metallic portion of the Reserve. Sir Edward Law, in his Memorandum of 1904, gave it as his opinion that, roughly, one third of the Reserve should be held in rupees, but in the years 1908–10 this proportion was exceeded, and rose to two-thirds and over. Accumulation of gold must take place at times when silver is in demand, since Government undertakes to give Rs. 15 for a sovereign. The location of part of the Reserve in gold in London is justified by the advantages it possesses.

34. I do not favour handing over the Paper currency to a Central Bank. For banking purposes I consider that such a bank is not at present required. Still less is it needed for the control of the currency, which has been efficiently managed by Government. If it is the intention that such a bank should issue the notes, I venture to think that these would not for many years carry the confidence which the existing "Sirkar's" notes do, and the recent marked development in note circulation might be seriously checked.

(d) *Purchases of Silver.*

35. It would probably be beneficial in the long run to make regular purchases of silver throughout the year to meet normal demands.

36. Coinage would appear to have been excessive during 1906 and 1907. The heavy demand for rupees in 1905 in some measure justified the large coinage of 1906, but the same justification does not appear to exist for the activities of 1907.

VI.—*Financial Organisation and Procedure of India Office.*

37.—(1) The practice of placing deposits with certain "approved Banks" has a tendency to single out and "hall-mark" these banks. Would it not be possible to widen the range of competition and put all on an equal footing by requiring security for the deposits? The rate received would probably be less, but this might be negligible by reason of the wider competition.

(2) Could deposits and short loans not be made direct by the India Office on some such principle as the sale of Council bills? When the Secretary of State has money to lend he could notify it and receive applications. The rich emoluments of the Government broker—14,723*l.* in 1910–11 and 8,615*l.* in 1911–12—who is not even a whole-time official, must make many a hard-worked civilian sigh for such a paradise.

(Sd.) T. SMITH.

## NOTE TO THE EVIDENCE OF Mr. THOMAS SMITH.

*Extract from "The Pioneer" of 12th April 1912.*

### THE SIXTH UNITED PROVINCES INDUSTRIAL CONFERENCE, CAWNPORE.

*Banking.*

A notable paper was read at the Cawnpore Industrial Conference on the 8th instant by Mr. T. Smith of the Allahabad Bank, who strongly urged the necessity of legislation as a check upon the mischiefs brewing in the multiplication of mushroom banks. He said:—

2. As many of you know, the decision to include a discussion on banking in to-day's proceedings was only arrived at a few days ago. My remarks, therefore, must necessarily be in keeping with the briefness of the notice I received. There is perhaps no subject more closely identified with industrial development than the subject of banking. It is to the banks and bankers that industries must mainly look for their finance, and accordingly as money flows freely to the banks so will industries profit thereby. It is surely of high importance that our banks, who are the money gatherers and distributors, should command the highest confidence; that by pure and sound management they should offer the best security to their depositors and shareholders alike; and that implies lending on the best security to borrowers. It is in its two-fold duty to shareholders and depositors that a bank differs from a trading concern. The latter asks the confidence of the shareholders only, and the law now recognises that something more must be done to protect him. The Company's Act is now being revised and it is hoped that when passed into law "fools and their money" will be less easily parted. Special legislation has also been undertaken for insurance and provident societies, and most will agree that it has come not a moment too soon.

3. But what of the banking depositor? The insurer pays only his small monthly or yearly premium, and, if things go wrong, he can "cut his loss" and run. But the banking depositor may be staking his all—his savings of a lifetime. I am not speaking of the big, wealthy man, for he has generally other interests and can find other avenues of investment. I am thinking of the comparatively poor and uninstructed man who looks round for an outlet for his savings and for a little interest on his store. He is attracted by the name "bank," and probably tempted by the high interest offered, and puts his all into something calling itself a "bank," but which in reality is only so in name. He is the man who deserves our pity. But why not give our protection first? It is to be regretted that the Government has not seen fit to deal specially with banking legislation. They admit the need but confess the difficulty. Signs are not wanting that the need is becoming more clamant, and the days before us will give volume to the cry.

4. We can see that the difficulty of legislating is great, but can also—and more clearly—see that the danger of not legislating is infinitely greater. If we turn to the figures, we find that the banking deposits in the Presidency Banks, the Exchange Banks and the Joint Stock Banks having over 5 lakhs of capital and deposits have increased in the last decade from 21,000,000*l.* to 49,000,000*l.* or by 133 per cent., while the capital and reserves combined have increased by 2¼ million and stand at 7,000,000*l.* This is very gratifying and we trust is only a very modest earnest of the increase in the next ten years. But what does it amount to? These figures for the whole of India are eclipsed by individual banks in England. To take one only—Lloyd's Bank—they have a capital and reserve of about 7,000,000*l.* and deposits of 84,000,000*l.*, while the figures for the whole of India are only 7,000,000*l.* and 49,000,000*l.* respectively.

5. India, therefore, follows afar off, but she need not despair. Our banks have made and are making good progress. Some are well on the way and passing their milestones quickly. There are sturdy followers coming along and increasing their pace, but I fear there are many weaklings also who will not go far, and, indeed, should never have started. It is these maimed and

decrepit ones who are blocking the way and must impede the pace. Many of them may be classed as cases of bad livelihood and handed over to the police. Unfortunately their numbers are growing, and we would like to see legislation which would render their existence impossible. They prey upon the innocent and are a snare to the unwary, and in a country like this, where so many are in ignorance of banking and commercial matters, there is all the more need for safeguarding the interests of the depositor. He needs it more than the shareholder, who generally speaking is a better informed man, and can generally be trusted to look after himself. The fear is that when disaster overtakes these so-called banks, the timid depositor, unable to discriminate between sound and unsound concerns, will make haste to get his money back from whatever bank it is in, and be chary of ever trusting his money to banking institutions again, and so the flow of deposit capital available for financing the country's industries may be seriously retarded.

6. The provisions of the new Act will help in certain matters, but we would like to see, as I have urged elsewhere, separate banking legislation defining what a bank really is, or at least making clear that an institution has no right to the name of "bank," and should not be registered as such. which undertakes coach-building, thela and ekka repairs, medical attendance, the manufacture of soap and oil, and "certain things," from machinery, or engages in trade or manufacture of any sort, even though it be, as I saw it stated with great comprehensiveness in one prospectus, "the leasing or "hiring or purchasing of all commodities and substances which can form "the subject of purchase or sale."

7. The principle of a compulsory deposit has been accepted in regard to insurance companies. How much more necessary is it in the case of banks!

8. There should also be a compulsory provision for reserves, which would strengthen the security of both shareholders and depositors; restrictions as to investments; also, restricted transfer of shares for two or three years after starting, which would be an earnest of the faith and confidence of the promoters in the soundness of their scheme.

9. I have been brief, as I promised: one word more, and I have done.

Legislation may accomplish much, but much also may be done by you, gentlemen, towards the sound development of joint stock enterprise. As men of light and leading, you exercise great influence in your respective communities. You have achieved distinction in your own professions. Your names carry weight. See to it that you do not lend them idly to schemes and concerns that you know nothing about. Your name on the directorate may lure others to put their money in. Too much of this is evident at the present time. A concern is started, and there is much rejoicing at its birth. Everyone wants to proclaim himself the father of it, but, in a few months, the paternal interest wanes, and the poor weakling sickens from inattention, and dies. With difficulty the fond parents can be got together to give him decent burial and report his demise to the registrar, according to law. Too often it is forgotten, or not realised, that directors have responsibilities. Let me, gentlemen, as a humble toiler and well-wisher of the joint stock movement, say, it is not sufficient to give your name, though that, as I have pointed out, means a lot and may involve others in disaster. You must give more. You must give the best of your energies and judgment; you must count the cost, and see that you have the capital to meet it; you must get the best management, and not sacrifice the shareholders' interests by putting in a figurehead, merely because he is a friend of your own; you must never forget your trusteeship, and the duty it entails.

10. These, if you will allow me to say so, are some of the main defects observable to-day. They are telling their own tale, and are checking the progress of joint stock enterprise in the healthy development of the country's industries, which we have all so much at heart.

Surely it is time to profit by past failures and to rise to better things!

(Signed) T. SMITH.

# APPENDIX XXVIII.

## MEMORANDUM OF EVIDENCE SUBMITTED BY MR. M. R. SUNDARA IYER, SECRETARY TO THE MADRAS ECONOMIC ASSOCIATION.

### A.—*Indian Currency System.*

1. The suggestions made for the reform of the Indian currency system can be grouped under three heads :—

I.—Indian mints to be thrown open to the free coinage of silver as it existed before 1893 and India to revert back to silver monometallism.

II.—Indian mints to be thrown open to the free coinage of gold by the establishment of mints in India and silver to be reduced to the position of subsidiary currency. It is expected that this measure will lead to a large circulation of gold currency, resulting in a currency system similar to that which prevails in England and other advanced countries of Europe.

III.—The present system to continue with certain modifications.

2. It is unnecessary to discuss here at length the first of these proposals. It has been fully discussed by the Fowler Currency Committee* and the Committee concurred with the Government of India in the opinion that it would be unwise to re-open the mints to silver coinage.

3. There are two considerations (they are mentioned by the Committee) which make it impossible for India to go back to a silver standard :—

Firstly the fact that four-fifths of the foreign trade of India is with gold standard countries, and so it is desirable that India should have the same measure of value as these countries.

Since that was written, the foreign trade of India has increased and some countries that had a silver standard then have now adopted a gold standard; and it is all the more necessary that India should not have a different standard from the other countries.

Secondly the report states that the establishment of a gold standard is the simplest and the most effective means of attracting capital. India stands more in need of British capital than it did 15 years ago. Recent figures of the London Money Market show that British capital is not flowing freely into India owing to causes which are too numerous to mention here. With the growth of the means of communication, the wide diffusion of commerce and the higher rate of interest offered by several of the Colonial Governments, capital is becoming more cosmopolitan and large sums are being invested in countries like South Africa, Argentine, &c. It is with the greatest difficulty India is able to raise in the London market all the money which she needs. Under such circumstances no one will seriously suggest the alteration of the standard into silver which will effectively prevent any money coming into India.

4. The second proposal, that the Indian mints should be thrown open to the free coinage of gold, has been very much discussed of late. The results claimed for this measure are so many that it is no wonder that many think that the free coinage of gold is the only solution of all the currency and financial difficulties of the Government of India. It is predicted that the following benefits will accrue once the mints are thrown open to the coinage of gold.

(1) There will be a large circulation of gold currency in the country.

(2) India will have the same system of currency as prevails in England and other advanced countries of Europe and India will no longer be "a backward country with a primitive currency system."

(3) This measure will put an end to the State-managed currency system and Indian currency will be free from governmental control.

"India," says the mover of the resolution before the Viceregal Council, "is the only great country in the world, barring China, the

* C. 9390, page 5, para. 17 *et seq.*

" management of whose currency is completely in the hands of " Government. However well managed it can never be as good " as an automatic currency which adjusts itself to public demands. " After the mints are opened all the State will have to do is to " pay rupees in exchange for gold coin."*

5. This resolution was seconded and supported by many other speakers in the council and many seem to believe in the statement that the opening of the mints in India to the coinage of gold will lead to an automatic self-regulating currency system as it prevails in England with gold as the principal circulating medium and silver as a subsidiary currency.

6. Somehow or other neither the mover of the resolution, nor the Hon. Mr. Webb, who has been agitating for the same measure, explain how this measure will lead to the results which they anticipate.

A currency system with a large amount of gold currency in circulation without much governmental control as it prevails in England is one to be desired, though Mr. Fisher thinks that such a standard is not stable and that the recent rise of prices in England and other troubles are due to the gold standard.

If we have to begin a currency system *de novo*, gold monometallism may be the most convenient of all systems.

But how can a currency system which has a circulation of 180 crores of rupees and 60 crores of notes be converted into gold monometallism as it prevails in England? For a very long time to come, at least for a half-century, silver will have a larger circulation and gold currency will occupy only a very small proportion in comparison with the silver currency. If any gold is forced into circulation it will be immediately exchanged for silver.

7. Such a system can certainly not be automatic as the 180 millions of token rupee coinage will certainly require State management. So long as the token rupee and the notes are in circulation, so long the State must regulate the currency, and the rupee coinage and the notes will be necessary for a very long time to come.

In India for a long time to come gold can never occupy the position which it occupies in England. The multitude of transactions that must be settled with money of smaller denominations are so many that silver coins, rupees and its fractions, will always be convenient and will always be used in India. The gold coins will bear only a small proportion to the total mass of silver currency. All transactions will practically be in silver and the simple expedient of throwing open the mints will never ensure a large circulation of gold currency.

Secondly, in almost all the European countries where the legislature declared gold coins to be legal tender and standard of value, these countries had a very large stock of gold coins and very little of silver. Gold was principally the standard, and what the Governments did was to legalise gold payments by declaring gold legal tender and restricting silver coinage. In India the conditions are exactly the reverse.

8. Whatever period of its currency history one may examine, the silver imports and silver coinage were more highly excessive than the gold. Though the imports of gold were very high, the percentage of coinage was very little even during the periods when the mints were open to gold coinage. Of the total imports of silver a very small percentage was coined and of the coinage very little remained in active circulation. The following figures will explain my arguments:—

9.—(*a*) In England gold currency was made the legal tender and sole standard of value in 1816. The coinage of silver was restricted in 1798 (38 Geo. III. c. 59). The gold and silver coinage before 1816 stood thus:—

| Years. | Gold Coinage. | Silver. |
|---|---|---|
| | £ | £ |
| 1790–1815 - - | 22,642,561 | 1,640,000 |

In 1792, six years before there was any restriction of silver coinage, Lord Liverpool estimated the gold currency at 30 millions sterling and the silver currency at 3,960,000*l*.

* *See* Gazette of the Government of India for April 6th, 1912, Part VI., page 569.

The currency reform was very simple and the Government had simply to give legal sanction to the existing conditions.

(*b*) The gold and silver coinage of France, some twelve years before the suspension of silver coinage, stood thus :—

| Years. | (Millions of Francs). | |
|---|---|---|
| | Gold. | Silver. |
| 1853–1864 - - | 4784 | 137 (·900 fine)<br>7 (·835 fine). |

Mr. James Wilson in his minute on a gold currency for India, dated 25th December 1889, stated that since 1850 a sum equal to 130 millions sterling of gold has been coined at the French Mint and a corresponding amount of silver exported. At the time when the coinage of silver was suspended, on April 25th 1876, the Bank of France held in Paris 55 millions in gold and 21¾ millions in silver and the coinage stood thus :—

| | |
|---|---|
| Gold - - - - | 200 millions. |
| Silver - - - - | 80 millions. |
| Notes - - - - | 106 millions. |

*Bullion in the Bank of France.*

| 000,000 omitted. | Gold. | Silver. |
|---|---|---|
| 1863 - - | 119 | 72 |
| 1865 - - | 238 | 208 |
| 1870 - - | 429 | 60 |
| 1875 - - | 1168 | 504 |
| 1876 - - | 1379 | 546 |

It is unnecessary to discuss the currency history of other countries, but in almost all the countries, the stocks of gold bullion and of gold coins were very large as compared with silver.

10. In India on the other hand, ever since the currency of the country was put on an uniform basis, the currency has been silver and the gold coinage absurdly small in proportion to the silver coinage. Silver and silver alone has been in demand for currency purposes and in spite of successive measures gold could not be got into circulation permanently. The figures from 1801 till recent years (which I have given below) will prove my statement. The result of such conditions is that India has been left with a very large mass of rupees in circulation. The silver circulation has reached as high a figure as gold in the European countries and what was easy in England or France is not possible in India and the minting of gold coins in India will certainly not bring about the desired result. In India till 1835 both silver and gold coins were legal tender and gold coins were received in the treasuries till 1853.

The figures for the silver and gold coinage stood as follows :—

| Years. | Gold Coinage. | Silver Coinage. |
|---|---|---|
| | £ | £ |
| 1801–1835 - - | 11,060,148 | 63,631,833. |

These figures show the active circulation of gold during a period when gold was coined freely, a period which has often been referred to, to show the popularity of gold coinage.

In 1864 a notification was issued that sovereigns and half sovereigns will be received as equivalent to 10 Rs. and 5 Rs. at the public treasury and on the 28th October 1868 the rate for the receipt of sovereigns and half sovereigns was raised to 10¼ Rs. and 5⅛ Rs.

11. The following figures show the imports of silver and gold into India and their coinage in India after the notification of 1864 :—

| Year. | Net Imports into India. | | Coined in India. | |
|---|---|---|---|---|
| | Gold. | Silver. | Gold. | Silver. |
| 1865–66 - - | 5,724,476 | 18,669,174 | 17,665 | 14,501,049 |
| 1866–67 - - | 4,188,195 | 7,936,693 | 27,725 | 6,118,857 |
| 1867–68 - - | 4,607,329 | 6,157,989 | 21,534 | 4,313,285 |
| 1868–69 - - | 5,159,352 | 8,601,022 | 25,156 | 4,207,031 |
| 1869–70 - - | 5,592,117 | 7,320,337 | 78,570 | 7,455,281 |
| 1870–71 - - | 2,282,122 | 941,337 | 3,994 | 1,606,751 |
| 1871–72 - - | 3,565,344 | 6,532,376 | 15,412 | 1,735,288 |
| 1872–73 - - | 2,543,363 | 715,413 | 31,795 | 3,930,751 |

In 1893, by notification, dated 26th June, sovereigns and half sovereigns were declared receivable at Government treasuries at the rate of 15 Rs. and 7½ Rs. and by Act XXII. of 1899, passed on the 15th September 1899, sovereigns and half sovereigns were declared legal tender.

While the circulation of rupees rose from 149 to 166 crores between 1893 and 1899, the circulation of sovereigns was nil, though the imports of sovereigns were very large :—

| Year. | (In Rupees 000 omitted.) | |
|---|---|---|
| | Imports of Sovereigns. | Circulation of Sovereigns. |
| 1894–95 - - - | 68,96 | — |
| 1895–96 - - - | 1,71,83 | — |
| 1896–97 - - - | 1,79,56 | — |
| 1897–98 - - - | 2,61,95 | — |
| 1898–99 - - - | 4,53,44 | — |

In 1899 the sovereigns were declared legal tender and though the imports of sovereigns were as heavy, the circulation of sovereigns was nil for four years.

| Year. | (In Rupees 000 omitted.) | |
|---|---|---|
| | Imports. | Circulation. |
| 1899–00 - - - | 7,98,56 | — |
| 1900–01 - - - | 6,96,63 | — |
| 1901–02 - - - | 7,15,07 | — |
| 1902–03 - - - | 8,71,88 | 1,38,67 |

Let me contrast with this the rupee circulation for a period of 20 years before the closing of the mints when silver began to fall in value :—

*Rupee circulation.*

| Years. | Crores of rupees. |
|---|---|
| 1873–74 - - - - | 101 |
| 1878–79 - - - - | 118 |
| 1883–84 - - - - | 119 |
| 1888–89 - - - - | 133 |
| 1889–90 - - - - | 135 |
| 1890–91 - - - - | 139 |
| 1891–92 - - - - | 141 |
| 1892–93 - - - - | 149 |

12. The rupee circulation just before the closing of the mints stood at 149 crores and the average annual addition was 7 crores.

The mints were closed in 1893, and various agencies were employed to contract the circulation. But in spite of all these the rupee circulation could

not be restricted. The average annual addition to the currency when the mints were open was about 7 crores. It was hoped that the stoppage of an annual addition of this magnitude to the rupee currency and the gradual contraction of the currency which always, under the operation of ordinary causes occurs, such as the withdrawal of coins reduced below the current weight by wear and tear and the loss or disappearance from circulation of coins, would, in the presence of the increasing demands of a continually expanding trade, suffice to remove the increase of coinage.

The Secretary of State suspended his drawings and withdrew 10 to 11 crores.

In spite of all these efforts* the circulation of rupees increased.

By 1895 the circulation increased to 150 crores, in 1897 to 153 crores and 1899–1900 166 crores, 171 crores in 1902, 188 crores in 1903, 200 crores in 1904 and 242 crores in 1908.

This fact alone is enough to show that it was the silver currency that is wanted for circulation, and could not be restricted whatever stringent steps may be taken. It is impossible to do more than what was done in 1893, and certainly the rupee coinage cannot be displaced by the minting of sovereigns.

13. The result of it is that India has got a large amount of rupee circulation while the proportion of gold circulation is very very small. The conditions are exactly the reverse of that which prevailed in European countries while gold was being made the sole currency and standard of these countries. Under such diametrically opposite conditions it is not possible by opening the mints to gold coinage, to have a gold currency.

14. *Absorption of Sovereigns.*—It has often been asked what happens to the very large amount of sovereigns imported into India. It has often been stated that they go into hoards. Every European economist who has bestowed any attention to Indian economic questions has found this a convenient explanation for every phenomenon that is unaccountable. Every Finance Minister thinks that if the hoards are unlocked, India's economic prosperity is assured.

In the first place it is extremely doubtful whether there is any hoarding or at least there was any hoarding to the extent generally supposed to exist. No one would hoard the token coinage (rupees) and I do not think in the treasure troves that have been found any rupees have been discovered or even sovereigns. The absorption of sovereigns is in a different direction. Last year, I visited a number of the Moffusil branches of some of the Presidency Banks and also examined the day-books of many of the native Shroffs. Mr. Hunter, the Secretary of the Bank of Madras, might have told this commission that every week he sends a very large amount of sovereigns but none of them come back in the course of circulation. I set out briefly the social and economic conditions which bring about the absorption of the sovereigns. These conditions will exist for a very long time to come, and will continue for many more years, and so long as these conditions last, sovereigns will be absorbed in increasing quantities, and the amount that will be absorbed is unlimited. Western civilisation and increased material prosperity tend to increase this absorption of sovereigns rather than diminish it as many people seem to expect.

15.† A Hindu according to the law at present administered in India cannot alienate, either by will or by gift *inter vivos*, any portion of his property immovable or movable to provide for his wife daughters or sisters or the female members of the family. The son as soon as he is born gets an interest in the property and he can impeach such alienation. In many cases alienations have been impeached 20 or 30 years after they have been made. This rule applies even to Government promissory notes, bank certificates, insurance policies, &c.

Hitherto the women used to be left to the tender mercies of the joint family and the wife of the head of the family who was in enjoyment of every possible luxury which the head of the family could afford could claim after

* There was also an exportation of Rupees 2 crores.

† This rule applies to ancestral property, but the distinction between ancestral and self-acquired is very slender.

his death only 7½ to 15Rs. for maintenance a month (half to one sovereign for a month). But the daughter and the sisters of the late head of the family were not entitled even to that pittance. The only way the strictness of the law is evaded at present, is by presenting the ladies with jewels which become their personal property which the other male members of the family cannot claim as family assets. In the case of the daughters of the family from their birth to their death presents are made on various occasions, presents of sovereigns or jewels. By the time of the marriage of the girl, which happens in the 12th or 13th year at the latest, the girl in an ordinary middle class family would have absorbed about 50 to 100 sovereigns in the least. This is strictly a provision, as these jewels could not be attached even for the husbands or the family debts. I have given a very low figure, and nowadays at the time of marriages even gold vessels are presented.

16. Western civilisation and western methods of thought and the spread of female education have brought with them the consciousness that some provision should be made for the female members of the household instead of leaving them to the mercies of the joint family and that they should have a decent competence. The result is that the sovereigns are being absorbed increasingly in tremendous quantities for the purpose of being melted for ornaments. The melting may take place immediately or after the girl is able to make a collection of sovereigns. Is it possible to satisfy this demand over a population of, say, at least 200 millions? People are wondering as to where all the gold goes. There is nothing surprising in its disappearance as sovereigns they are absorbed in fifties and hundreds in every household. There is no limit for the absorption. The jewels can be worn by Hindu women only so long as their husbands are alive and the Hindu women do not remarry. So, as soon as the husband dies, the jewels could not be worn and they are converted into purposes for which they are intended, viz.: they are sold and realised in money and then invested to bring in a decent interest for the women to live upon.

17. Personal credit is almost unknown in India. The banks do not lend money without any security. The Chetties and Marwaries who lend money to officials (European and Indian) charge a rate of interest that may appear to many as incredible. For a loan of 100 Rs. the calculation is made thus. Interest at 3 per cent. a month for 20 months comes to 60 Rs. The sum of 60 Rs. is deducted and 40 Rs. is paid into the hands of the debtor and the amount in the bond is 100 Rs. which should be paid in monthly instalments of Rs. 5. This is an ordinary transaction taking place every day. Nothing less than 20 months is accepted. I know a number of Europeans, civil service men, men in the financial service and various departments, who have and are taking loans at these rates. For an Indian who has no Government post or who wants to avoid these men, the easiest way to raise money is by the pledging of his wife's or family's jewels.

18. Secondly, nearly 70 per cent. of the population in India is mainly agricultural. The first instalment of the land tax, and in some parts two instalments are to be paid before the harvest begins, *i.e.* before the grain is ready for sale. Apart from the land tax there are various other demands arising out of the present conditions.

In almost all these cases raising a loan by the mortgage of immovable property is always avoided. The Presidency Banks and its branches do not lend money on the security of immovable property. The landholder does not like the publicity that attends the transaction in raising money in his own village. Even granting that he risks all these things there is delay—inordinate delay—arising out of the inspection of title deeds, registration of documents and getting the attestation of all the adult members of the family who may be in different parts of the country, and without such attestation the transaction will not be complete. Lastly the mortgagee will insist that the term should be at least for a period of three years. The money therefore cannot be paid back as soon as he has sold his grain. The only convenient, the popular and the cheapest, way of raising loans is by the pledging of jewels. The jewels may be taken to a different town, and the money is raised in half-an-hour without any registration or witnesses and the jewels may be redeemed at any time with a month's interest. The transaction may

be completed even by women without the presence of the adult members. The interest is cheap, there is the utmost secrecy in the transaction, and the money is raised immediately. The result of this is, whenever the agriculturist or the landowners gets a surplus, little or more, he invests it in jewels. It gives a status to his wife, proclaims her as a rich woman, there is peace and happiness at home, and lastly he is sure he can raise as much money as he wants at any moment. If his savings are not enough then he purchases as many sovereigns as possible and presents them to his wife and they are kept till they come up to the required number.

19. This tendency is seen not only in the above cases but also in others. Two of the biggest traders, one a leather merchant and another iron merchant, became insolvent recently. Every article belonging to the concern went into the hands of the Official Receiver. But the assets of the trader which could not go into the hands of the Receiver as exempt from attachment and the processes of the court were the jewels of his wife and daughters. In one case, 6 months after the insolvency the jewels of the wife of the Insolvent were valued at Rs. 1,000,000.

Every trader, small or large, with purely honest motives, puts by at least a portion of his savings in the form of jewels. It may help him to raise money as easily as possible or if his business fails his family is well provided for. It is unnecessary to mention that some may consider it the best way of cheating a creditor.

These are the various forces that are in operation to-day and every sovereign which a family can get hold of goes into the melting pot or waits its turn to go to the melting pot.

20. The Honourable Mr. Webb and a very large number of critics have not explained how the gold currency is to displace the silver and note circulation, even granting for a moment that every sovereign will strictly be used for currency purposes.

During the last 7 years the increase in circulation of rupees was 47·84 crores. As regards the notes the total circulation of notes in 1910–11 was 54⅓ crores, *i.e.* 469 lakhs in advance of the previous year and during the 7 years, a period during which sovereigns were legal tender, the increase in notes is calculated at 22·18 crores. Without doubling the circulation, how are the new coins to get into circulation ? The gold will certainly not displace notes. In the banks and among individuals the payments are in notes, then in silver and in gold lastly if they are asked. The series of figures which I have with me as to the daily transactions of some of the banks show that 75 per cent. of the payments are in notes and 20 per cent. in silver and very little in gold. The gold payments are mostly to the Shroffs who sell sovereigns outside for bullion purposes.

The sovereigns may be used conveniently for payments of Rs. 50 or Rs. 100, but the following figures show that the notes are preferred even for these payments.

21. The following figures will show the very high increase of notes of larger denominations especially after 1899 when the sovereigns were made legal tender :—

| | Rs. 50 |
|---|---|
| 1889–90 - - - - - - | 181,819 |
| 1899–00 - - - - - - | 233,159 |
| 1910–11 - - - - - - | 526,488 |

| Years. | 100 Rs. | 500 Rs. | 1,000 Rs. |
|---|---|---|---|
| 1889–90 - - - | 386,222 | 364,318 | 40,527 |
| 1899–00 - - - | 748,793 | 53,285 | 62,039 |
| 1909–10 - - - | 1,436,406 | 62,021 | 88,350 |

The increase in circulation in the case of Rs. 50 and Rs. 100 notes is about three times what it was 20 years back. If the sovereigns have to displace the notes it will be seen more in the circulation of Rs. 50 and Rs. 100 notes. But as yet there seems to be no trace of it.

22. The preference given to the currency notes by the large mass of population is very marked especially in the Moffusil. Just when the villager starts to a town on business, he changes the rupees into one note or two or three notes of Rs. 100, keeping a very small amount of change in silver for his expenses. There is the secrecy in taking his money with him. There is no jingling of the coins, no suspicious knot in the dhoti, which may lead anyone to think that he is carrying any money. If the payment is to be made to anyone, the notes are handed over, and the change, if any, is received in small notes. The large grain merchants who receive payments in rupees, usually, before they go home, convert the mass of rupees into notes by paying a discount, and take the notes home. Apart from the question of convenience, the notes are preferred for safety. The numbers of the notes are usually noted inside the cover and a large class of the people know that they can easily trace the notes, and the money will not be lost.

It is this feeling—that money carried in notes can never be lost—that makes a very large number of people convert the silver into notes, whether they keep them at home or carry them with them.

Thirdly, notes are still used very largely for remittance purposes through post offices.

23. Fourthly, in the Madras Presidency when anyone hands a note of Rs. 50 or above, to another for payment, he is asked to endorse his name on the back of it. Like a cheque, every currency note bears a number of endorsements, showing the successive holders of the note. In courts of law when payments are disputed, the number of the note and the endorsements offer a very successful defence of payment which it would be impossible to offer in other cases.

These, and various other reasons, will always make the notes more popular than silver or gold. It would be impossible for gold to displace notes, nor would it be sane economic procedure for any State to displace its paper by gold.

24. The next question to be considered is whether gold will displace the rupee coinage. A few years ago the Government tried to force sovereigns into circulation and the salaries of officials, clerks, &c., and postal money orders were partly paid in sovereigns. The measures had to be stopped for the simple reason that very few wanted the sovereigns. If they took sovereigns it was simply to change them the next moment. One Accountant-General who was in charge of a very large office told me that most of the officials refuse gold, and wanted their pay in silver and notes. However, this expedient could not be tried even for three months. As almost all the transactions have to be carried on with money of very small denominations rupees and fractions of a rupee are wanted.

Secondly, in the case of the rupee and sovereign in circulation, while the intrinsic and nominal values of the sovereign are the same, the nominal value of the rupee is nearly 30 per cent. higher than its intrinsic value. It is almost an elementary proposition that in such case the rupees will be in circulation, while the sovereigns will disappear.

25. Thirdly, let us suppose on the other hand that 100,000,000*l.* of silver are withdrawn from circulation and melted. Apart from the great loss that would result from such a transaction, the Government would be depriving the people of the only kind of currency that is suited to the needs and requirements of 70 per cent. of the people. Silver coins will be at a very high premium, people will be willing to take 13 and 14 rupees for a sovereign, and certainly the rate of exchange can never be maintained at 15. Rupees will have to be coined again and the sovereigns will be exported or disappear.

Unfortunately, those who have suggested the opening of the mints and the introduction of a gold currency have not presented any working scheme as to how to get gold into circulation, and—a more difficult feat than that—how to retain it in circulation.

It has been stated that a sovereign is a coin of very large denomination, and as such, if a Rs. 10 coin is minted, it will rapidly get into circulation. But it is forgotten that there is a much smaller coin than Rs. 10—I mean

the half-sovereign, which is legal tender, worth only Rs. 7½, but of which there are very few coins in circulation. There is absolutely no demand for them; banks do not import them for that reason. If small coins would induce gold circulation, the half-sovereigns should be largely circulated. The fact is the demand for sovereigns being merely for use as bullion, the purchaser wants as big a coin as he can get, instead of half-sovereigns.

26. For the reasons above set out, I would advise a gold standard with a gold reserve. It is unnecessary to quote any authority, as, under the present conditions, it is the only system that would both be economical and would lead to very little disturbance in the exchange or in the prices under the present system. The term exchange standard has been wrongly used, and I would label the present system as a gold standard with a gold reserve. The only objection against it seems to be that it is not recognised as a system in any of the orthodox text-books. But new currency systems are bound to evolve according to the conditions and needs of a country, and there is no reason why there should not be progress in monetary science as there is in other branches of human knowledge. The reference to a large number of witnesses before the two previous Committees, who stated that there cannot be a gold standard without a gold currency, is of no value as the system was not understood or worked out in practice 15 years ago. Such opinions will be of as little value as the opinions of some of the greatest experts who stated that ironclad steamers could not float before steamers began to run, because it is against the laws of nature for iron to float.

27. Before concluding this part of the memorandum I may point out that many critics, including Mr. Webb, have fallen into error in stating that the Currency Committee of 1898 recommended the re-opening of the mints immediately, and that the Government of India never followed the recommendations. This statement is being repeated very frequently by many who do not even seem to care to look into the report of the Currency Committee.

The report concludes with the statement that it will rest with the Government of India to decide when successive steps should be taken for the introduction of a gold standard.* The measure must be one under which gold will flow freely to India generally as trade and currency requirements dictated, even if it took several years to introduce into the circulation sufficiently to make the standard fully effective would carry with it a confidence which could never be inspired by the sight of gold forced in by artificial means. It is a question on which there may be a very wide difference of opinion as to whether the time which the members of that Currency Committee anticipated has come, and whether the measures now proposed will not merely be forcing gold by artificial means. The Government of India seems to think that the gold coins have not established themselves in the currency, but are used towards a profitable employment as bullion.

Under such circumstances who can say that the recommendations of the previous Currency Committee have not been carried out?

28. It is also curious to note that at the budget meeting of the Viceregal Council, the Honourable Mr. Gokhale (who is often quoted as one of the leading Indian publicists) states:—

(*a*) That a gold currency for India has never been authoritatively proposed as a definite object to be attained. A stable exchange at a reasonable rate is all that successive authorities have sought to ensure.

(*b*) That it is wrong to pile up a huge gold reserve in pursuit of an object never proposed or defined, or even regarded as attainable within a measurable distance of time.

(*c*) That it is looking too far ahead into the future to anticipate the introduction of a gold currency into India.†

The above statements will show how the recommendation of the Currency Committee was considered by one of the leading Indian publicists. Yet we are being told by Englishmen in India and in England that all the Indians are clamouring for a gold currency and the carrying out of the recommendation of the Currency Committee.

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* C. 9390, page 21, para. 70.

† Financial Statement of the Government of India, 1907–08, page 204 (H.C. 140 of 1907).

The fact is (to quote Professor Marshall) that India being governed by England, has necessarily had its affairs discussed largely by Englishmen who are apt to take their opinions of what goes on in India very much at second hand.*

29. *Paper Currency Reserve.*—Under the present conditions it is unnecessary to have a reserve equal to the value of notes in circulation. It is wasteful and unnecessary. A certain ratio may be fixed between the amount of the reserve and that of the notes issued. The ratio to be fixed can be settled by banking practice. I would fix a ratio which is not more than half or less than one-third, the reserve to be metallic and consisting solely of sovereigns, half-sovereigns, rupees and bullion. The whole reserve is to be kept in India—there is absolutely no justification for keeping the reserve in England. I am of opinion that it would be better to have two-thirds of the reserve in silver, rupees and bullion.

The figures for 1911 are as follows :—

| Notes in circulation. Value in Rupees. | Reserve. | |
|---|---|---|
| 54,99,05,815 | 9,27,97,267 | gold in England. |
| | 7,56,75,000 | gold in India. |
| | 2,00,00,000 | gold securities. |
| | 26,14,33,602 | silver. |
| | 9,99,99,946 | silver securities. |
| | 54,99,05,815 | |

30. Under the arrangements that I have proposed there is no discussion about keeping the reserve in England, or investing it in English securities, for the obvious reason there will not be large reserves. The whole metallic reserve will consist only of Rs. 26,14,33,602, which is the amount kept as silver under the present conditions. The proposal I have made releases gold of nearly 20 crores of rupees in value which is locked up unnecessarily.

31. *The Gold Standard Reserve.*—The management of the Gold Standard Reserve has been very severely criticised. The criticism is to a large extent due to a misapprehension as to the objects of the reserve. The Government of India ought to have defined its position by stating that the reserve is simply for maintaining exchange, and not for the purpose of ensuring the conversion of rupee token coinage into gold.

The Gold Standard Reserve has reached the high figure of 22,657,776*l.*, and it is unnecessary to pile up the reserve more. Even the crisis of 1908, about which one has heard so much, which was international, was tided over by a very small amount. There is no necessity to keep a reserve over 20 millions. A portion of the reserve may be invested in sterling securities, as it may earn interest. The figures show that there has been a net profit on investments to the extent of 2 millions.

32. I have stated it as my opinion that the currency system best suited to India is a Gold Standard with a Gold Reserve. For the success of the Gold Standard the most important thing is the proper maintenance of the reserve. As I have defined the principal use of the reserve to be to steady exchange the reserve ought to be kept where it is wanted, *i.e.*, in London. Gold kept in India can never be effectively useful if it is urgently wanted in London. Apart from the expenses for freight, insurance, &c., the risk of loss or delay will prove fatal. There is nothing strange in this procedure while the gold reserves of Japan are kept in London.

33. The question of the location of the reserve is not new and it was discussed as early as 1898, and Mr. A. M. Lindsay in his evidence before the Currency Committee gave a number of reasons for locating it in London.†

34. The profits of rupee coinage that may accrue hereafter may be utilised for getting silver for coinage. The scheme announced by Sir Edward Baker in his Budget speech (of 1907–8) of arresting at the third stage the rupees which form the profit in coinage and retaining them intact

* Q.A. 11,770. Indian Currency Committee Report. C. 9222.
† Q.A. 4056. Indian Currency Committee Report. C. 9037.

until required for actual use may be useful.* I would suggest that silver as bullion which is left as coinage profits may be retained in India for rupee coinage. This may be separated from the Gold Standard fund to avoid confusion and criticism, and kept separate for use. In course of time sufficient bullion will get accummulated for coinage.

*Diversion of the Gold Reserve Fund to Railways.*

35. Sir James Mackay's Committee† was constituted in 1907 as there was a very strong and persistent agitation both in England and India that the existing arrangements for railway traffic was very inadequate. The President of the Bombay Chamber of Commerce speaking in 1907 said: "At the present "moment there is one bitter cry going up from all over India for waggons to "carry the produce of the country. . . . Now we hear of stations filled "with cotton and no waggons to take it away, thousands of tons of manganese "lying at the stations in the Central Provinces waiting for waggons which "do not come. Indeed it is not necessary to refer to any particular trade as "all are suffering alike."‡ It is difficult to estimate the loss this inability on the part of our railways to supply waggons means to firms and merchants. The Honourable Mr. Apcar in his speech at the Viceregal Council (1907–8)‡ pointed out that the trading community looked with every confidence to means being devised to prevent for the future the retardation of railway progress, and stated that such retardation was not permitted either in England or in the United States or in our own colony of Canada, and in neither of these countries is the return of the capital so high.

36. The Government of India had to find money and the non-official members of the Viceregal Council who represented the Indian public opinion stated that the annual revenue surpluses should not be expended on railway construction. The Honourable Mr. Gokhale suggested that the profits on rupee coinage may be devoted to purposes of railway construction. The Committee on Railway Finance (1907) in their Interim Report submitted in June 1907§ suggested that as there was then nearly 25,000,000*l.* sterling with the Government to be used for any emergency that may arise, that half of the profits of the rupee coinage to the extent of 1,000,000*l.* of one financial year may be expended on railways, as the matter was urgent. As I have stated above, this proposal had the support of the non-official members of the Viceregal Council, I may say the support of the Indian public opinion, and the Railway Committee also suggested it, and the amount spent was 1,000,000*l.* while there was 25,000,000*l.* sterling for all necessary purposes. The statement of the financial correspondent of the "London Times" that a committee sitting in London, light-heartedly suggested the misappropriation of Gold Standard fund was not correct.

37. One cannot understand whether the Government of India would have been well-advised to sit quiet and watch the general derangement of trade and the resulting catastrophe to Indian trade, both foreign and domestic, keeping 25,000,000*l.* sterling locked up in its coffers. Those who are shocked at an 8 per cent. bank rate in India while there has been a large surplus in the hands of the Secretary of State, seem to have forgotten that the derangement of railway traffic was a much more serious injury to the whole of India than an 8 per cent. bank rate.

38. There was no fund available for immediate expenditure as the revenue surpluses were not allowed to be touched and borrowing could not be resorted to every year.

39. Those who have objected to the diversion of the Gold Standard Reserve have suggested borrowing in London. But the amount that it can borrow is limited in various ways.

Firstly, in a railway crisis like that which happened in 1907, money could not be raised immediately in the London market.

Secondly, Indian loans are not very popular and it is not possible to raise large sums. The fact that the loans are raised and guaranteed by the State

* *See* Financial Statement of the Government of India, pages 24-5 (H.C. 140 of 1907).
† *See* for Report Cd. 4111.
‡ *See* Financial Statement of the Government of India, pages 196–7 (H.C. 140 of 1907).
§ *See* Appendix V., pages 156–7.

no longer affords any inducement to invest in Government securities. The increase in the official class of foreign investments during the 20 years was only from 14,990,105*l.* to 20,880,837*l.* while in the non-official class the amount arose from 16,649,374*l.* to 36,421,087*l.* In the former case the investments increased by only one-half, while in the non-official class the amount rose from 16,449,374*l.* to 36,421,087*l.* In the former instance the increase was one-half, in the latter case double.

Under such circumstances it would have been impossible to borrow whenever there was any urgent need for capital requirements for railways.

Thirdly, the increase of sterling borrowing is against the recommendations of the Fowler Currency Committee. The Committee stated that for a speedy attainment of gold currency the restriction of gold obligations was necessary. Will not such a step be suicidal and make it impossible to attain a gold currency which the critics say is the only solution of all currency difficulties?

Lastly, as long as the money required for railway purposes has to be provided for by or through the credit of the Government of India, the supply of money depends on the Government's general financial situation at the time. The Government must regard its obligations as a whole, and in determining to what extent it allows its credit to be pledged in order to raise capital for railways, it must take account of its present and future requirements for other purposes, and the probable effect of the increase in its liabilities or its power to meet these requirements.

For these reasons, I am of opinion that the diversion of the fund in 1907 was absolutely necessary, and that it was a sound procedure.

*Cash Balances.*

40. Heavy cash balances in London are a phenomenon of recent years.

*Cash Balances in London.*

| | £ |
|---|---|
| 1906–07 - - - - - | 5,606,812 |
| 1907–08 - - - - - | 5,738,489 |
| 1908–09 - - - - - | 8,453,715 |
| 1909–10 - - - - - | 15,809,618 |
| 1910–11 - - - - - | 18,174,349 |

Firstly, it is to be remembered that to a country whose annual revenue is about 86,985,300*l.*, and whose expenditure comes to nearly 80,000,000*l.*, a cash balance of 18,174,349*l.*, where it is wanted for a variety of purposes is not very much. In a continent like India, the revenue purely depends upon climatic conditions. Not only the land revenue suffers by a bad season, but also the revenues under stamps, railways, &c. To a country dependent on climatic conditions for its revenue, with a population of 300,000,000 who look up to Government for relief when rains fail, whose export trade may be estimated at 180,000,000*l.*, and import trade at 102,000,000*l.*, with a sterling debt contracted in England of nearly 180,000,000*l.*, on which the annual interest which India has to pay comes up to 6,000,000*l.*, a cash balance of merely 18,000,000*l.* is really a small sum, and I would say a dangerously small sum. Considering the large volume of trade and the magnitude of its transactions a sum of 18,000,000*l.* in England does not seem to be a very high figure. But even these high figures are due to a variety of causes which are temporary and abnormal, and they are as follows:—

(1) A series of good seasons with good harvests and with enough rainfall;
(2) The opium windfall;
(3) Large loans raised for railways still unexpended, temporarily in the hands of the Secretary of State;
(4) The deposits of railway companies.

These have gone to swell the cash balances, and especially those in the hands of the Secretary of State. None of these conditions are permanent, and a series of bad seasons, and the extinction of opium revenue will leave Indian finance under a heavy deficit. The Government of India itself seems to have forgotten this fact when it is spending such large sums in education, sanitation, and other items.

41. These sums have not been extracted in excess of its requirements as can be seen from the following figures.

42. In 1909–10, the total revenue of India was (excluding the opium receipts) 69,100,000*l*., and the expenditure, 73,100,000*l*. The growth of normal revenue in the four years 1909–13 has been 6,600,000*l*., and of expenditure, 6,200,000*l*., leaving a margin of 400,000*l*. This was the margin in a series of years when there had been bumper harvests, and increased taxation in 1910–11, which was estimated to yield 170 lakhs of rupees for the year. These figures will show how close the estimates are. The finance member in framing the budgets has got various uncertain factors to reckon with. He must count on the rains being timely, harvests fruitful, steady progress of industry and trade, the money market to be steady, and that famine, plague, and war, will not occur.

43. Among the causes for the recent large cash balances, the most important item is the windfall in the opium revenue about which no forecast or estimate can accurately be made. In February and March 1910, in response to the excitement in China markets, the Bengal opium sold for prices which was unprecedented for half a century. The prices rose higher, reaching the figure of Rs. 3,827 a chest. The Chinese connoisseurs were ready to pay fanciful prices. The net result of these striking fluctuations were that the Government of India had to estimate for the average rate of Rs. 2,925 compared with the Budget figure of Rs. 1,750 a chest. In October 1911, the China drug rose to the phenomenal price of Rs. 6,000 a chest, and the Government of India sold 15,440 Bengal chests, and exported 15,567½ chests with certificates for China, and 14,000 Bengal chests were sold for other markets.

44. The opium sale (2nd sale of the year and the 11th of the current official year) realised higher prices.

| | |
|---|---|
| January 1913 - - - - | Rs. 20,19,050. |
| December 1912 - - - - | Rs. 17,39,350. |

This "restless and baffling" head of revenue so wholly exceptional in character, has led to the phenomenal cash balances, and, with the disappearance of opium revenue, there will be no heavy cash balances.

45. Another item which has also led to the swelling of these balances, is the large increase of sterling loans incurred for capital expenditure during recent years. These loans have been raised not on the occasions when they are wanted, but long before they are utilised to suit the conditions of London markets. The result is that these loans have to be in the hands of the Secretary of State, waiting their time to be utilised. Apart from these loans, large deposits are left by the railway companies.

If all these temporary balances are removed, there will be very little balances left in the hands of the Secretary of State available for the very large transactions which have to be carried on in London. It is a sound economic procedure if these sums can be made to earn interest while they are waiting to be utilised. No one can expect for sums that are lent out at one or two weeks' call, 4 or 5 per cent. It is absurd to say that money is being borrowed at 3½ to 5 per cent. unnecessarily, to be lent out again at 2½ per cent.

46. There is, after all, not much money with the Government of India, to lend out to the Presidency Banks. The cash balances serve a number of purposes. They are the reservoirs from which all the capital expenditure is incurred, and all the advances to local authorities are made out of them. The deposits are all paid back from these funds, and the discharge of permanent, temporary, or unfunded debt is met from them. Lastly, the Council Bills which are sold so heavily, are drawn against these funds. When one considers the number of purposes to which the cash balances are put, and how largely the Provincial Governments also depended on these, I think that there is no figure which may be considered too high. It is also not possible to have these heavy cash balances always for the reasons I have given above.

(With reference to Question 4,851).

STATEMENT showing IMPORTS and EXPORTS of GOLD from 1st April 1906 to 30th September 1910.

| | Imports. | | | | | Exports. | | | | | Net Import of Gold. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sovereigns and other British Gold Coins. | | Bullion. | | Total | Sovereigns and other British Gold Coins. | | Bullion. | | Total. | |
| | Private. | Government. | Private. | Government. | | Private. | Government. | Private. | Government. | | |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| (a) 12 months before year of crisis (October 1907–September 1908). | 7,610,000 | 40,000 | 8,331,000 | — | 15,981,000 | 11,000 | — | 2,002,000 | — | 2,013,000 | 13,968,000 |
| (b) 12 months in which Exchange crisis occurred (October 1907–September 1908). | 2,423,000 | — | 5,385,000 | — | 7,808,000 | 222,000 | 215,000* | 2,291,000 | 25,000 | 2,753,000 | 5,055,000 |
| (c) 12 months after crisis (October 1908–September 1909). | 1,412,000 | 2,000 | 4,456,000 | — | 5,870,000 | 51,000 | — | 2,181,000 | — | 2,232,000 | 3,638,000 |
| (d) 12 months later than (c) (October 1909–September 1910). | 9,021,000 | 7,000 | 9,694,000 | — | 18,722,000 | 366,000 | 2,000 | 2,240,000 | — | 2,608,000 | 16,114,000 |

* Light-weight sovereigns.

ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY.

# APPENDICES TO THE FINAL REPORT

OF

# THE COMMISSIONERS.

## (THIRD VOLUME OF APPENDICES).

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# ROYAL COMMISSION ON INDIAN FINANCE.

## APPENDICES TO THE FINAL REPORT.

## APPENDIX XXX.

STATEMENT OF EVIDENCE SUBMITTED BY MR. VIDYA SAGAR PANDYA, SECRETARY OF THE INDIAN BANK, LTD., MADRAS.

### THE LOCATION AND MANAGEMENT OF THE GENERAL BALANCES OF THE GOVERNMENT OF INDIA.

1. *Introductory.*—A comparative statement of balances (see *Statement I.*) of the Government of India ought to enable any student of Economics to judge that—

(*a*) They have been keeping larger balances than they can manage with, and that the large increase in recent years, both in India and England, has been quite disproportionate to the growth of their own transactions.

(*b*) Comparing the distribution of balances in England and India it is evident that the balances in England have been greater than in India.

(*c*) On the other hand, in view of the large reserves with the Secretary of State for India, his balances ought to have been smaller.

(*d*) Notwithstanding these inflated balances floating debts were renewed and fresh loans were issued often in advance of the time when the money was actually required.

(*e*) This has involved the payment of interest at a higher rate on the debt, while the balances have only been earning a comparatively low rate of interest.

All this could be avoided by the exercise of greater vigilance.

### USE OF BALANCES.

2. *Balances, how used in the past.*—The Secretary of State for India has been—

(*a*) Lending these balances against securities at a low rate of interest in England and not in India; and

(*b*) Placing the cash balances with private banks (in England) out of India without any securities.

3. The balances of the Government of India ought not to be allowed to swell or to be used for investments abroad to earn interest. They should be kept as low as possible, consistent with safety. Enormous budget surpluses are wrong and wasteful.

The current balances should be kept in India until required for the purposes of the Government and in order to make money easy when the Indian market most requires it.

4. *How and when to be used hereafter.*—They ought to be lent in India against approved securities, not only to the Presidency Banks but to all other banks of standing.

At present the Presidency Banks get a certain portion of Government balances free of interest and the Exchange Banks get deposits at interest in London. It is the Indian Banking Institutions who do not get any portion of Indian public money.

5. The Presidency Banks should, in common with other banks, be required to lodge approved securities, if they require any larger sums than the

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ordinary balances provided for under the present arrangement with the Government.

6. With a view to encourage banking facilities at places where there are no branches of any Presidency Bank the Government ought to keep a minimum balance with any other approved bank, which offers securities to guarantee Government accounts, for a reasonable period. This is a concession the Presidency Banks now get without any securities.

7. The Presidency Banks are interested in keeping high rates so as to earn dividends for their shareholders, and they would not avail themselves of the facilities for getting monies at the bank rate from the Government; but advances to other banks of some standing in India will reduce the rate of discount and prevent the Presidency Banks raising their official rate.

8. The advances can easily be made in India as the Government balances rise from December to March and the money is particularly required for trade purposes at about that time. The balances begin to fall from about April to November when they are at about the minimum. The trade requirements decrease during this period and thus about the time when the Government balances run low the banks can repay the advances which the Government may then require.

9. *How to further ease the money market during the tight season.*—Even if the Government Treasury balances are insufficient to allow advances being made on the deposit of Government securities the Government might undertake to make these advances in the form of currency notes at a reasonable rate of interest and on such terms (as to amount and period) as may be considered necessary by way of precaution, holding the approved securities temporarily as a part of the Paper Currency Reserve. This would keep down the bank rate and relieve the temporary pressure on the money market without locking up the Paper Currency Reserve in fixed securities or disturbing the specie (gold) holdings. In this way the currency will also become more elastic.

10. *Easing the London money market.*—There is the further question of easing the London money market in order to finance Indian trade.

The resources of the London money market are so great that they do not stand in need of Government of India balances. Of course they would welcome money from any quarter. The London money market would easily adjust itself if the balances were withdrawn. Any withdrawal of balances "is a mere ripple on the surface of commercial London but the same "transaction dominates the whole condition of money in India." The Indian revenues should not be utilised for the purposes of the London money market. Nor would the Indian export market be substantially affected by the withdrawal of the Indian balances from London. The trade conditions would improve by the utilisation of the balances in India more than by lending them in the London market. The London market does not employ the money for Indian trade only.

By making the balances available in India, Indian trade would be directly benefitted, whereas the results of the other method are very indirect and doubtful.

11. *Control of balances.*—The despatch from the Secretary of State (Lord Salisbury) to Government of India, No. 225, dated 6th May 1875 in paragraph 17, contains the following passage:—

"It will be competent for the Financial Department either to retain it (the money) in the Treasury or to lend it for short terms under suitable conditions as to interest and security."

Again, the Secretary of State for India in his despatch No. 87 (Financial), dated May 1899, confirms the above as under:—

"I am not sure that I understand the reason why your Government solicit my sanction to such an arrangement. The management of cash balances in India is entirely within your discretion. When it was proposed to institute a Reserve Treasury in order to guard against the risk of public inconvenience on the occurrence of an emergency, the Marquis of Salisbury in his despatch of 6th May 1875, No. 225, though not approving precisely of

the suggestions laid before him, left the matter in the hands of the Government of India, observing that it would be competent for the Financial Department either to retain the money so reserved in the Treasury or to lend it for short terms under suitable conditions as to interest and security."

(*a*) In view of these pronouncements it is amusing to see the Government of India retaining the money in their Treasuries and the Secretary of State lending it (not for "short terms under suitable conditions as to interest and security" as laid down by him) for long periods on a low rate of interest, and even without security.

(*b*) The Secretary of State, when he incurs any liabilities for India does not pledge the Imperial credit. The Government of India bears all the responsibility; but all the balances of India are used by the Empire generally, India only excepted.

The Secretary of State for India is at present too largely dominated by the influence of the great financial interests in England.

(*c*) There should be some kind of financial autonomy in the management and location of the general balances and the reserves of the Government of India. India should be treated in this respect in the same way as the self-governing Dominions, such as Canada and Australia. The Government of India should be allowed to employ the balances in India.

(*d*) With a view to promoting the general financial interests of India it may be desirable to appoint a representative advisory board or committee to assist the Government in the profitable utilisation of the funds at their disposal.

## GOLD STANDARD WITH GOLD CURRENCY OR EXCHANGE STANDARD WITHOUT GOLD CURRENCY.

12. Originally the goal of Indian currency policy was a gold standard with a gold currency. This policy was inaugurated in 1893 by the closing of the mints to the free coinage of silver and developed in 1899 "to give "effect to the recommendations contained in the report of the Indian "Currency Committee of 1898 which were endorsed by the Secretary of "State and generally accepted by the Government of India." These recommendations include :—

(1) Making the British sovereign a legal tender and a current coin, and
(2) Throwing open the Indian mints to the unrestricted coinage of gold.

In 1899 "the measure of transcendent importance before the Govern-"ment was to place the currency of India on a gold basis and stable "exchange." (Honourable Mr. Clinton Dawkins, September 1899), and "To provide for actual striking of gold coinage at an Indian mint was "really a corollary." He further said, "no other measure would save "India from embarrassment." The Secretary of State for India was so thoroughly convinced of the necessity of introducing and popularising gold coins, that in a despatch, dated 24th May 1900, he remarked: "To make "the use of gold coins more popular and especially among the class of "people for whom a coin valued at Rs. 15 is an unduly large unit, it may "be desirable for your Government to coin gold pieces of three or five "rupees at the Calcutta Mint which should be made legal tender, but would "be issued altogether irrespectively of the branch of the Royal Mint at "Bombay." The Government of India in their letter, dated 4th May 1907, in reply to the Chamber of Commerce, Bombay, said: "They had "never concealed from themselves the inconvenience attending a gold "standard which is not accompanied by an effective gold circulation, and "they are in full accord with the view that a more general use of gold "among the people would simplify the task of directing a managed "currency."

Again, we had the statutory fixing of the value of the rupee at 16 pence, and the sovereign was made a legal tender for payment or on account, doubtless with the intention of encouraging the importation of sovereigns. Rupees issued for sovereigns, however, are not re-exchangeable.

13. On the other hand, the Secretary of State commenced unlimited sales of Council Bills and Transfers at rates below gold import point

and doubtless checked the importations of sovereigns from London. The measures for opening the mints to the free coinage of gold have not been put into practice. The machinery which was said to have been ordered from England in 1899 to strike gold coins never reached India. The Secretary of State lent his ears to the technical objections raised by the Treasury and dropped the matter.

In 1912 the Financial Member, when speaking on the resolution of the Honourable Sir Vithaldas B. Thackersey entertained the Council with arguments against the opening of Indian mints to the free coinage of gold. They were numerous but were suitably classified into three sets of objections, namely:—

(1) That a gold coinage is unnecessary;
(2) That it would be ineffective in support of exchange; and
(3) That it would be wasteful or even harmful.

14. From the above it is difficult to understand the attitude of the Secretary of State for India in this matter. One may reasonably assume that two opposing influences have been at work, *i.e.*, one to give India a gold standard and currency, the other to give her a gold exchange standard only without a gold currency. The latter modification has been imposed upon the former scheme with the following results:—

(*a*) We find that the credit of India is no better in the estimation of the London money market.
(*b*) The elaborate safe-guards to ensure convertibility of the rupee into sovereigns even in London are dependent upon the balance of trade in favour of India and the accumulated reserve of gold.
(*c*) Instead of gold currency there have been issues of token rupees; and
(*d*) The burden of Government in supporting the artificial relationship becomes greater every day.

*Conclusions on the Foregoing.*

15. In my opinion—

(*a*) Council Bills and Transfers ought not to be sold which in any way stop the import of gold into India. Gold should be allowed and even encouraged to come freely into India and every effort made to keep it in the country when it arrives.
(*b*) The rupee, as a token coin, should not be issued to an unlimited extent, and the circulation of the artificial rupee ought not to allowed to expand.
(*c*) All devices or contrivances to prop up an artificial position are insecure.
(*d*) Government ought to take serious steps to put gold into circulation to replace the fictitious rupee as effectively as possible.
(*e*) There is advantage even in forcing gold into active circulation as it—
    1. Tends to limit the liability of the Government to the public.
    2. Automatically supports sterling exchange.
    3. Removes the necessity for larger reserves.

16. No Government has any right to give only nine pennyworth of silver for sixteen pence and to hold the other seven pence without any legal obligation to give gold in exchange for the rupee.

*How the Secretary of State's requirements for Home charges can be met.*—So long as the balance of trade is in favour of India to an extent larger than the requirements of the Secretary of State for India exchange cannot fall below the fixed standard. The difficulty might arise when the balance of trade goes against India, but if the gold reserves in India are sufficiently strengthened the amount of gold required for payment can be met out of such reserves during these special years.

The maintenance of reserves in India undoubtedly adds to the strength of the position of the Government of India, but the maintenance of such reserves in England instead of India cannot give any addition to this strength.

If the reserves were maintained in India they would be available to meet the demands for remittance to England.

If necessary for the present temporary gold loans might be raised in London to meet any extraordinary demands. Gold loans can be paid back out of the accumulation of gold in normal years.

The Government need not undertake the duty to lay down gold at its destination when exported for payment of balance of trade. This business may be left to the Exchange Banks.

## GOLD.

18. Prices are alleged to have risen owing to the increase of production of gold in the world's mines.

All other countries are absorbing more gold and there is no reason why India should be grudged its share of the absorption (*see* Statement II.). Considering the population of India, the per capita amount of gold held in India is much smaller than that held in other countries, and if India is rich enough to absorb its share of gold now why should other countries object when they are not restricting their own absorption? Even disregarding the growth of gold for banking reserves, the use of gold for arts, &c., in other countries is much larger than in India (*see* Statement III.), if the population is taken into consideration. Government having adopted the gold standard ought not to consider that the circulation of gold as currency is objectionable.

A gold standard cannot be considered to have been established in India until it is supported by a gold currency.

It ought not to be detrimental to the interest of England as the gold would not be attracted from England but from the world's mines, though it may come through England, as the extra balance of trade of India is from countries other than the United Kingdom.

Extra gold received should be put into circulation and this will attract more gold. If extra gold is attracted it is bound to get into circulation gradually after the demand for so-called hoarding is satiated.

With the free mintage and gold currency India may one day hope to become the banking centre of Asia, and in that case the balances of trade of countries in Asia with countries in other continents will be settled through India.

## GOLD AND GOLD NOTES.

19. Circulation of gold and gold notes can be attained by the following means among others:—

I. By the introduction of Universal Currency Notes redeemable only in gold, and by the gradual conversion of the present Rupee Currency Notes into Gold Notes through the accumulation of sufficient gold reserves. They will be popular only if the gold reserves are held in India. This will centralise the reserve of gold and effect economy in the circulation medium with the concurrent circulation of gold.

These new Universal Gold Notes may be of the denomination of a sovereign and fractions of a sovereign. A promise on the notes would be to pay a sovereign on one or the number of these required to make up one sovereign. Transactions in India being very small the necessity of having smaller coins than a sovereign has been repeatedly urged in various quarters. On the other hand objection is taken to small gold coins of less than half a sovereign as being not convenient to handle, but Gold Notes for these small denominations will take their place.

II. Gold should be issued more freely to the public not only from the Presidency Towns but also from the District Treasuries. Post Offices and Presidency Banks branches should be instructed to exchange rupees for gold. The Comptroller-General does not allow the issue of more than a limited number of sovereigns a day at the Presidency Currency Office to a single bank. Thus the gold reserve will be more evenly distributed

throughout the country than by being locked up in the Currency Offices of the Presidency towns from whence it can find its way in very small quantities.

The people should be assured that they will suffer no loss in converting gold coin into rupees.

It is said that sovereigns can be obtained on demand for rupees at the Indian Treasuries to-day. The public do not know this, nor have they any legal claim on the Treasuries or elsewhere for such conversion.

Mr. Lionel Abrahams, Assistant Under Secretary of State, in his Memorandum on General Balances says—

"It will be noticed that in each year (that is from 1909–10 to 1912–13) the importation of sovereigns exceeded the absorption by the public, and that at the end of each year there has been a substantial amount held by the Government at the disposal of the public to be exchanged for rupees." (Cd. 7070, page 21.)

In "Capital," dated 27th May 1909, we read:—

"The Accountant-General, United Provinces, has informed all Treasury Officers and Agents of the Bank of Bengal in the Provinces that as sovereigns and half sovereigns are not available at present, no application for supply of the coins should be submitted until further notice."

I have not been able to trace the further notice referred to in the above.

On the 25th January 1910 the Indian Bank Limited, Madras, wanted only 500 sovereigns from the Accountant-General, Madras, who replied that "sovereigns are issued to the public at not more than 100*l*. a day to each "applicant."

This was how the bank was treated in the matter, and I am told that individual applicants were induced to accept doles of 3 to 5 sovereigns each.

The correspondence in connection with the same is appended herewith. *See* Statement IV.

The Bank of Madras shows in its weekly statement the number of sovereigns in stock. The applicants for sovereigns at the head office were informed that the bulk of the stock of sovereigns was held at one of the important branches, and the important branch would in its turn announce that the same was held at the head office. Even now the issue of sovereigns to the public for more than 10,000*l*. to a single party on one day requires the sanction of the Comptroller-General to whom "the purpose for which the "gold is asked for has to be reported."

III. Gold Universal Currency Notes must be encashable in gold at all the central places where Reserve Currency Agencies might be established in charge of District Treasury Officers.

To whatever extent these gold notes may circulate they would take the place of rupees and therefore they would tend to check the demand for rupees.

What affects the use of notes both for local and remittance purposes is the excessive desire to convert them into coin, but as encashment is rendered easier the desire for conversion lessens.

IV. All payments in excess of a certain amount, say Rs. 150, should be made only in gold, the payee being given the option of demanding payment in rupees or gold notes.

"Government must prevail upon the people to accept the gold, and to encourage them to do so it should be offered to them in the form most suitable to their needs. Gold must be helped and nursed into circulation by the influence of the Government Official."

V. By opening the mints to the free coinage of gold sovereigns in India.

(*a*) "Gold can be attracted profitably from Africa to pay the balance due to India from London (as the freight, insurance and time in transit from African mines to Bombay compare favourably with charges and time in transit from mines to London) if, in exchange for the raw gold, currency can be obtained as quickly and economically as in London."

(*b*) Gold produced in India will not go out if a free mint be established in India.

As Sir Clinton Dawkins said in 1900—

The Government of India will have the satisfaction that "they have been "able to assist the Indian gold mining industry by saving it the freight and "charges incidental to the transmission of its gold to London."

(*c*) Recoining of old coins can be done more economically, thus saving time, charges and interest.

## HOARDING.

20. Both Government officials and Anglo-Indian writers have very exaggerated notions about India's hoarded wealth and "the ingrained "hereditary custom of hoarding among natives." It may be true that the Indian is not so enterprising as the European and does not make the best use of his money for his country at present, but this is due to—

(1) Deep feelings of distrust and suspicion owing to the unsettled and disturbed political state of India for so many centuries.

(2) He is obliged to keep a larger cash balance through utter lack of banking facilities of deposit and remittance.

(3) Similarly he holds his money in his own possession in lieu of safer and more tempting investments. He has no financial organisations to advise him in the choice of his investments.

(4) Because the bulk of population still remains quite uneducated.

This feature of hoarding is transient and is disappearing gradually (*see* Statement V. of some of the Investments in India), and must die out with education and general awakening. The remedy does not lie in denying gold to India, but in taking steps to educate her to make the best use of it. That is the proper and permanent remedy.

In Statement VI. will be found some extracts from "Capital," dated June 25th, 1908, in this connection.

*Sovereigns.*—Again inferior coins, if numerous enough, will always drive out superior coins from circulation, therefore an Indian need not be blamed if he prefers to retain sovereigns.

## THE LOCATION, DISPOSITION, AND EMPLOYMENT OF THE GOLD STANDARD AND PAPER CURRENCY RESERVES.

21. The maintenance of reserves in India will engender confidence, and will enable gold coin and gold notes to circulate. Gold coins do not circulate because they are not available to any substantial extent after the requirements of hoarders have been met. Rupees were largely hoarded, but in spite of this they circulated as currency because the total amount available was sufficient to meet both purposes. The purposes for which the gold reserves in England obtained by the unlimited sales of Council bills have been utilised are—

(1) For the purchase of silver.

(2) Meeting bills drawn from India to meet an unfavourable balance of trade without a fall in exchange; and

(3) In exceptional years to "supplement temporarily the resources in "London of the Secretary of State for India at times when he is "unable to sell Council bills except below specie exporting "point."*

The amount required for purchase of silver should be drawn when the necessity for rupees or the purchase of silver for it actually arises, and it ought not to accumulate in anticipation. For the other purposes the maintenance of reserves in India would make no difference as mentioned already.

To facilitate the establishment of a gold currency in India the Gold Standard Reserve should be kept wholly in gold, and no portion invested. No further portion of paper currency should be invested as the currency reserve in gold will help towards the establishment of gold currency.

22. The keeping of reserves in gold in India is essential for the following further reasons:—

(1) In case of political troubles or war against England or commercial crisis in England there would be great difficulty in getting gold and in selling securities.

* Cd. 7070, Section II., page 88.

(2) When, added to the above, there is commercial crisis in India also (because trade is so sympathetic), and especially when the trade balance goes against India with famine or war on the frontier or political difficulties internally—any one or more or all of them (which God forbid) will do havoc in the absence of gold in India.

(3) As matters connected with Indian finance and currency come to be better understood in India the procedure of holding gold in England is likely to constitute a much more serious difficulty for the Government to handle. (*See* paragraph 16.)

(4) The result of keeping reserves in England is that they are likely to be invested in securities, owing to the control of London financiers, as the Secretary of State is too often influenced in favour of the London market. The London market trades in credit based upon the barest minimum of gold. Retaining gold in India strengthens the position of the Empire inasmuch as it strengthens the position of India.

(5) The Paper Currency Reserve is obviously meant to redeem the Indian Currency Notes and if there is any place where it ought to be located it is India.

(6) India is peculiarly situated and there are special reasons in her case why extra caution should be observed. India cannot obtain immediate assistance or immediate re-inforcement of gold in a few hours from neighbouring countries as the Banks of England and France are able to do.

Indian cash reserves must therefore be regarded with the utmost jealousy.

23. *Securities.*—That portion of the Gold Standard Reserve which consists of the securities of those Colonies against which a deep-seated grievance exists in the minds of the Indian public should be placed elsewhere without delay. Similarly the securities, either not repayable by the borrowing Government or payable at a distant date, should be disposed of.

## STATE CENTRAL BANK FOR ALL INDIA.

24. Those who advocate the establishment of a State Central Bank for all India have not formulated any definite scheme for its working. From what I can gather the idea appears to be to form a central institution with private capital to—

(1) Absorb the three Presidency Banks (so as to consolidate and concentrate the banking facilities in India), enlarging their power, among others, to lend and borrow outside India and enter into sterling operations.

(2) Take over from the Government the management of—

(*a*) The paper currency.
(*b*) Gold reserves.
(*c*) Government Treasuries.
(*d*) The general balances of the Government of India both in India and England.

(3) Some would expect it to undertake the convertibility of the rupee, the promotion of the circulation of gold, foreign remittance business, &c., &c.

25. If another Royal Commission has to sit it will be to enquire into the working of the proposed State Central Bank only as it is proposed that it will relieve the Secretary of State for India and the Government of India of some of the administrative functions relating to Indian Finance and Currency. After a century of administration by the East India Company the British Parliament decided to transfer the administration to the British Crown and it would be regrettable if after another 50 years only they were to take the retrograde step of re-transferring one of the most important branches of administration to a private company.

26. It has not been explained fully how this is to be attained or how the difficulties in its working in practice can be overcome. The various details

as to capital and shareholders, board of directors, connection and control of the Government and the public, &c., of such an institution have not been worked out. In theory the advocates of the establishment of the State Central Bank may have some good reasons on their side, but in practice I believe it would not subserve the best interests of India.

In dealing with the question it is necessary to take into consideration the working of the three Presidency Banks in the past, as they are intended to form the nucleus. As it is proposed to establish and work the new Central Bank more or less on similar lines and with the same materials it is desirable to examine the materials closely. I shall, therefore, touch upon some features of the working of the Presidency Banks and incidentally point out what further restrictions are necessary.

27. I shall first indicate the objections to, and difficulties in, the formation of such a State Bank.

I. To constitute a Central Bank to undertake to work on the lines indicated in my opening remarks practically amounts to a transfer of one of the most important branches of administration from the British Crown to a private company. This step will be viewed as putting an important branch of Indian administration outside the pale of criticism in Parliament. India cannot afford to lose Parliamentary control over any branch of Indian administration. It is dangerous to hand over the financial arrangements to a divided control, even if Government retained a certain power of supervision.

II. The existence of a dominant Bank with State connections is contrary to the fundamental principles of Free Trade. The creation of a State Bank must affect adversely both the Exchange Banks and the Indian Banks which have been doing useful work in the past. (Please refer to the Memorial from the Exchange Banks of Calcutta dated 3rd February 1900.*)

III. I take the following from the proceedings of the meeting of the Bombay Chamber of Commerce as reported in "Capital," 24th July, 1913 :—

"The resources and working capital of the present Banks have grown proportionately to the demands for increased credit, and the stringency experienced during the busy season is not an argument to the contrary, but is due to the action of Government in collecting and locking up most of their revenue when money is urgently required."

To which I may add "and in investing it in the London money market."

The growth of credit in India to finance exports and imports (*see* Statement VII.) has kept pace with requirements.

Forcing a Central State Bank on the lines advocated by the enthusiasts will result in a maze of credit finance—credit banking, credit reserves, and credit currency. A natural and steady development all round of banking facilities checks speculation.

The development of credit is urgently required in quite a different direction.

What India wants most is some method by which the Zemindar and the bulk of the poor agricultural population may come within reach of cheap and easy money. Their requirements are for long periods, and these cannot be met by the proposed State Bank.

A State Bank formed by the amalgamation of the Presidency Banks which would receive deposits from the public for short periods or Government balances, payable at call, can finance only seasonal business.

To finance the Zemindars and the agriculturists separate organisations under State patronage require to be formed.

The Zemindars require Landholders' Banks. To help the agriculturists the co-operative credit movement has to be developed in the right direction. The Government has not taken up this movement as wholeheartedly as it might have done. Central co-operative credit institutions having proper organisation should be established to carry out the work required to be done in the different Presidencies.

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* Cd. 7071, page 409

These credit institutions should be worked by the Indians themselves with the encouragement and liberal support of the Government, and not by any alien institutions.

IV. The Specie Reserve on hand or cash balances now held by the Presidency Banks to meet their liabilities will be reduced to an unsafe minimum and the Banks to a consequent risk of panic, as they will look to the Central Bank to help them in emergencies. The tendency of the Central State Bank would be to treat the Government balances more or less as fixed deposits than as money at call; and it would thus allow its own reserves to fall below the limit of safety and be more likely to rely on Government help in time of crisis.

From Statement VIII. appended herewith, showing the percentage of cash to liabilities in the case of the three Presidency Banks, it will be clear how the percentage has gone up and down. A statutory limit requires to be fixed for the maintenance of a regulated proportion of specie on hand to the total liabilities of the Presidency Banks.

Credit lent at call or short notice should not be treated as money.

V. The Central Bank could not undertake the conversion of silver rupees into gold as the capital required to support this object would not earn a sufficient dividend. Even a Bank with a large uncalled capital cannot do so. It would be dangerous to adopt such an artificial procedure.

The Central Bank cannot maintain exchange as "the credit required to maintain exchange takes it beyond any Bank."—(Mr. Hunter, Q. 6319, Cd. 7069, page 265.)

VI. An Indian State Central Bank cannot be allowed to enter into foreign business owing to the risks involved and this limitation would cripple the usefulness of such a bank.

The temptation to employ money profitably abroad would lead them to transfer funds outside India.

The internal trade of the country would not receive the undivided attention of the Central Bank.

VII. A Central Bank with private capital would be a business concern pure and simple, looking generally to the profits of its own various enterprises before considering problems connected with the needs and obligations of the people. The chairman of the European Calcutta Trades Association at one of their annual meetings said:—

"It is often said that trade follows the flag; it would be better to say that flag follows trade. First comes the trade, then the chartered trading company and then follows the flag. If the commercial venture is unsuccessful the flag stays at home. This is the secret of our success as a colonising nation and the reason why we have few worthless possessions."

Extract from Honourable G. Fogg's speech at the meeting of Bank of Bombay:—

"The true course for the shareholders to pursue, having regard to their own interests, and saying nothing with regard to the public interests which to them were of minor importance, was to throw away the amalgamation scheme at once."

It is likely to be jealous of its powers and privileges, declining to permit private interest to secure the advantage of individual enterprise.

This will be clear from the working of the Presidency Banks in the past.

(*a*) The Presidency Banks have responded to the requirements of some of the large European trading interests. They have financed some particular crops which they found most convenient to their own ends.

So far as I am aware they have no systematic scheme or sympathetic desire to finance Indian trade or industries. Their interest in Indian native concerns has been only to the extent that it was necessary to exploit them for their own gains.

(*b*) At times of stringency in the money market the Government of India appear to a certain extent willing to grant loans to the Presidency Banks. But this facility to take money at the bank rate is not availed of by them. Thus they look to their own profits before their obligations to the public.

(*c*) They have never regarded the Indian native banking concerns as auxiliary institutions to finance indigenous trade and industries.

(*d*) They have not even recognised their responsibility to lend against the Government paper, and their refusal to so lend has been under the plea of financing trade.

Their willingness to agree now to any amalgamation is based upon their own interests rather than with a due sense of their obligations to the public.

VIII. The Central Bank's business should be to encourage gold currency and to provide India with gold reserves, but the institutions which are to form the nucleus of the proposed bank are run by men who are not prepared to encourage this for fear of disturbing the European money market. They feel that their first duty is to the London money market. The needs of India are only a secondary consideration. Thus one of the main objects of the Central Bank will be defeated.

IX. The too close connection which must exist between the Government and the Central Bank is likely to cause serious embarrassments.

(1) It is bound to produce a general impression that the State is responsible for the good conduct and prosperity of the banks, and when any one of them is involved in difficulty or in danger there will be a disposition to claim as of right assistance or even indemnity from Government.

Power to inspect the bank's operations could not be dispensed with and this would impose upon Government in the public view a responsibility for the management of the bank. The expectations unfortunately engendered by the close connection between the State and Presidency Banks were the cause of inconveniences almost amounting to a public danger. These inconveniences have been experienced by the Government in the past, and it is probable that difficulties of this character may occur not infrequently in the future.

(2) Again an external power which can be called upon to prohibit a competitor from encroaching upon the markets enjoyed by his rival possesses a jurisdiction which is too useful not to be frequently invoked.

The indigenous institutions working at places where the Presidency Banks have branches find themselves at a disadvantage.

(3) The close connection is likely to place the Government in a further critical position at a time of commercial crisis or trade depression.

X. It is proposed to transfer the paper currency to the new bank.

People in India have implicit faith in the British Government. Bank notes, even with Government guarantee, will not be accepted. The innovation would arouse suspicion and distrust which it would be difficult to allay. The Government should not pledge their power and prestige for the profits or reputation of a private company. The paper currency is steadily growing and performing the useful function of economising metallic currency. It will suffer by transfer to a bank; it will get a set-back until matters are explained and confidence restored, which takes a very long time in India.

It is hardly necessary to add that the profits from note issues should go to the general taxpayer, and not to any particular section of the community, such as the shareholders of the proposed Central Bank.

The Government of India has got about 300 treasuries and about 1,500 sub-treasuries, which are doing useful work very economically. These treasuries will have to be maintained for other purposes, because the Presidency Bank with too costly a management cannot afford to open so many branches.

Thus it is not possible for the Central Bank to afford such facilities for the circulation of gold and gold notes and the conversion of gold to token coins as can be done by the treasury offices, which are very neccessary for gold currency.

The State treasuries cannot be put under the control of the bank, as it will be dividing the responsibility. The State Bank cannot be so much in touch with the Government machinery.

The new bank will be at best an experiment. On the other hand the Treasury system has developed after half a century of working, confidence in the notes of the Government of India has been secured, and it would not

be wise to disturb both for a mere experiment. To this may be added the following remark of Mr. Lionel Abrahams :—

"It will be noticed that this list of advantages does not assume that the establishment of a State Bank would enable economies of any importance to be affected by the reduction of Government establishments, or that it would lead to any increase in the popularity of the paper currency or in the efficiency of its management. Neither of these results seems probable. As regards the latter, the growth of the note circulation and the additional facilities for encashment that have from time to time been provided under Government management seem to indicate that the efficiency attained under that system is probably as great as would be attained under management by a bank." (Cd. 7071, page 352.)

XI. A Central Bank, unless it be a national body representing all Indian interests, has no right to be constituted or designated as a State Bank for India to manage Indian finance and currency.

By experience Indians find that the full benefits of similar institutions ostensibly started for India do not reach further than the white community.

The bank with which Government keeps accounts should not be a sectarian one: a bank in which there is a vast majority of a certain class is likely to influence its working to the detriment of other interests. It is not possible for a sectarian bank to approach finance from an Indian standpoint. When once a particular community gets hold of certain advantages it naturally tries to retain them.

It will be clear from the facts and figures given in the subsequent part of my notes that the Presidency Banks now in existence are sectarian, the European element greatly predominating, and in the new amalgamated State Bank the same element will predominate and Indian interests be subordinated. (*See also* sub-paragraphs *a* and *b*, objection No. VII., page 644.)

Again, owing to the conflicting interests of the multifarious communities covering such a large continent as India, it is difficult to constitute a cosmopolitan body at one place to look after the interests of all alike; local influence is certain to be in the ascendant, and other parts of the country are likely to be neglected.

XII. *Amalgamation.*—Centralisation would probably mean some curtailment of existing credit. There are customers who have got large facilities in two or three Presidencies at the same time, but a Central Bank might decline giving any single facility equal to the aggregate of facilities allowed by the three banks.

## FURTHER RESTRICTIONS FOR THE PRESIDENCY BANKS.

28. It is necessary to go into further details in reference to the constitution of the proposed bank.

We must closely examine the working of the Presidency Banks which are to form the nucleus. I shall therefore take into consideration questions relating to the shareholders, the board of directors, the management, &c., &c.

29. The Presidency Banks with whom the Indian Government keeps account are sectarian.

## SHAREHOLDERS.

A. Taking the case of the Bank of Bengal, "Capital," writing the history of that bank up to 1888 said: "The shareholders in the bank are mainly European."

| | | Rs. |
|---|---|---|
| On 30th June 1888 there were | 244 Asiatics holding - | 2,525,659 |
| | 1,102 Europeans holding - | 17,474,341 |
| | 1,346 | 20,000,000 |

It is admitted that the native of India is no less desirous of making his capital fructify than peoples of other countries, and he therefore seeks a safe investment. The bank has the prestige arising out of the monopoly of all

Government business and connection with the Government. In India connection with the Government carries great weight.

We still find that the shareholders of the Bank of Bengal now numbering "some thousands" are mainly Europeans. ("Capital" 1909.)

Why has there been no increase in the numbers of Asiatic or Indian shareholders? How did the shareholders remain mainly European after a quarter of a century in view of the prosperous working of the Bank of Bengal?

B. *Bank of Madras.*—Taking the list of shareholders eligible for the general meeting held on the 4th August 1913, we find that the shareholders of this bank are also mainly Europeans, viz. :—

| | Rs. |
|---|---|
| About 181 natives holding about 3,342½ shares = - - | 1,671,250 |
| About 762 Europeans holding 11,657½ shares = - - | 5,828,750 |
| | 7,500,000 |

It is necessary for the better government of the Presidency Banks that the shareholders of a particular community should not be in a vast majority.

I would suggest that the shares to be held by any shareholder should not exceed a fixed number, and that the voting be so regulated that Indian interests shall be protected.

*Attendance and Proceedings at the Meetings of the Shareholders of the Presidency Banks.*

30. It would be interesting to prepare an analysis of attendance of the shareholders at the general meetings of the three Presidency Banks.

A. The directors of the Bank of Bengal have the shareholders' meetings to themselves; an outside shareholder is a *rara avis*. The advent of an outside shareholder creates surprise.

From the copy of the proceedings of the shareholders of the bank of Bengal held in August 1913, we see that out of the shareholders of the bank numbering "some thousands" only one shareholder was present as attorney to eight absent shareholders. It may be noted it has been ruled that the attorney-shareholder cannot propose any resolutions at the meetings. Thus the six directors present at the meeting (with a single shareholder who could not move any resolution) carried on the proceedings in the name of the shareholders. All the three propositions regarding—

(1) Passing of the accounts submitted by the directors;
(2) The election of the retiring directors;
(3) Appointment of the auditors to audit the accounts, for which the directors are responsible, were all proposed and seconded and carried by the directors themselves.

A director had to propose even a vote of thanks to the chair.

The proceedings of the shareholders of the Bank of Bengal have been generally conducted in this manner.

B. I attach herewith a rough analysis of the list of shareholders of the Bank of Madras (Statement IX.) showing the number of votes each was entitled to at the general meeting held in August 1913.

From the analysis it is clear that out of nearly 950 shareholders of the Bank of Madras—

1. There are about 325 who are not entitled to any vote.
2. Out of 950 shareholders there are about 225 ladies who never grace the meetings with their presence to use their votes.

*Q.* No. 6983. (*Mr. Keynes.*) How are your directors appointed at present?

*A.* (*Mr. Hunter.*) By the shareholders.

*Q.* No. 6984. Are they in fact appointed in that way, or is it, as is often the case in England, that the existing directors nominate their successors?

*A.* (*Mr. Hunter.*) If a director retires in the course of the year, the vacancy is filled up by the directors, but at every annual meeting two directors retire, and it is open to the shareholders to re-elect them or not. (Cd. 7069, page 287.)

I have requested the Bank of Madras to furnish me with the analysis of the attendance of the shareholders at the general meeting for the last 25 years in the form attached herewith. For attendance in the current year *see* Statement X. compiled by me from the reports of the proceedings of the bank in the Madras press.

From the analysis it will be seen the general meetings are attended generally by one or two and sometimes six shareholders besides the directors and the officers of the bank who are generally in the majority. The apathy of the shareholders in attending the meetings is deplored by the chairman before the empty chairs, and has often been commented upon by the Madras press.

In Statement XI. there is an extract from the "Madras Mail," the leading Anglo-Indian daily of Madras.

In this connection I may suggest that clause No. 56 of the Presidency Banks Act requires to be modified to enable more shareholders to attend the meetings. That is, the qualification for voting requires to be reduced. It should also be provided that proxies should not be given in favour of the directors or the officers of the bank.

## CONTROL BY THE SHAREHOLDERS.

31. From the foregoing it will be seen that in the case of the two Presidency Banks, the Bank of Bengal and the Bank of Madras, the directors are practically left to pass the accounts submitted by themselves, to re-elect themselves or their successors, and to appoint auditors of their own choice to audit their accounts.

Owing to the apathy of the shareholders the directors comply with just the formalities required by law, and issue a report and a balance sheet. They do not give so much information to the shareholders as they used to give in their annual reports.

Thus, the control and direction of a bank is vested in a group of men responsible to nobody but themselves, without effective supervision by the Government. This state of affairs certainly requires to be mended.

## AUDITING.

32. The Presidency Banks have generally not found it necessary in the past to have their accounts audited by any member belonging to the Society of Chartered Accountants of England and Wales. Some of the auditors have been members of other chartered societies probably having longer historical traditions of accounting and auditing.

The Joint Stock Banks of India have hereafter to get the accounts audited by auditors approved of by the Government, but such a provision is not found in the Presidency Banks Act.

I append a statement, No. XII., showing how long each auditor of the Bank of Madras has occupied his position. It is clear they have always been European, and for long periods. When in 1910 a new chartered accountant was appointed, we find in the report of that year the following:—

"Branch loans amounting to Rs. 15,67,137, included in Accounts of Credit Rs. 1,28,11,355-3-8, were not on securities authorised by the Presidency Banks Act. The securities actually held, as shown by the branch returns, formed, in our opinion, ample liquid security for this amount. We have satisfied ourselves that these loans have now, at the date of this report, been put in order."

33. There should be a detailed and careful audit conducted by auditors who do not owe their appointments to the directors. It should not consist merely of comparing numbered items of balances from the ledger with the balance sheet. Besides the audited accounts a Statement of Valuation of Assets must be submitted to the shareholders every three or five years, conducted by those competent to give an opinion. At present, one or other of the auditors comes from outside. Such auditors cannot be expected to certify to the value of the assets shown in the balance sheet. The public attaches exceptional value to the audit certificates of skilled accountants, but the auditors generally refuse to be saddled with the responsibility of valuing

assets. The book-keeping may be all right, according to the rules of the bank, but it is the value of the assets which is important.

34. Some of the banks that have failed in India had a galaxy of chartered accountants to audit their accounts for a number of years, who certified to the book-keeping, but the failures were due to the directors not having any proper valuation of their assets. It is not my purpose to suggest anything against the assets contained in the balance sheets of the Presidency Banks, but as they are the custodians of public money, a statement of valuation of assets, if published, will inspire more confidence besides being to their own interest.

I think the Government must insist upon every bank, doing business in India, submitting a statement of value of assets and an estimate of its liabilities. Provision must be made in the Presidency Banks Act for a Government audit and valuation of assets by competent persons.

35. The new Indian Companies Act has prescribed a form of balance sheet for the joint stock banks, &c., which may be adopted. All the provisions for submission of reports and returns to the Registrar, which are available for public inspection, require to be incorporated in the Presidency Banks Act.

36. *Borrowings by the Directors.*—It is not enough that a director shall abstain from voting on any motion respecting the loan or advance of money or otherwise giving credit to himself, his co-trustee, servant, relative, &c.

It will have salutary effect (and is very necessary) if the total amount of all the liabilities (alone or with others) of the directors or firms in which they are partners of joint stock companies in which they or their partners are common directors (or managing directors or agents) be shown in the balance sheet. If these particulars appear in the weekly statements of the three Presidency Banks, there will be no room for "window dressing."

37. *Gentleman and his groom Advances.*—The Presidency Banks Act, Clause 36a, (6), requires, if possible, to be so worded that there may be no room for advances to a gentleman and his groom.

## THE DIRECTORS AND THE EXECUTIVE OFFICERS OF THE PRESIDENCY BANKS.

38. I beg to present to the Royal Commission the following extract from "Capital" (dated 2nd September 1909) the leading financial organ of the Anglo-Indian community in India about the directors of the most important of the three Presidency Banks.

*Extract from "Capital," September 2nd, 1909.*

The directorate of the Bank of Bengal has always been a very close borough, confined to certain favoured firms, some sixteen in number. Of those firms three went bankrupt, one having its certificate suspended and six have closed up their business, so that only seven remain to draw directors from—Messrs. Jardine, Skinner & Co., and Gillanders. Arbuthnot & Co. have had a member of their firm a director during the past half century at least. They evidently have a freehold tenure of this position.

* * * * * * * *

Of the present board Messrs. Geo. Henderson & Co. came on the scene in 1873, Messrs. Begg, Dunlop & Co. in 1888, and Messrs. Turner, Morrison & Co. in 1893. The defunct firms are: Colvin, Cowie & Co., Gisborne & Co., Crooke, Rome & Co., who came on prior to 1860, Mackillop, Stewart & Co., 1861, Shand, Fairlie & Co., 1863, Lyall, Rennie & Co., 1866, Ashburner & Co., and Carlisle Nephews, 1871, John Elliot & Co., 1885.

Until 1876 there were always three Government directors, the last three being a member of the Board of Revenue, the Master of the Mint and the Accountant-General, Bengal. With the passing of the Presidency Banks Act of 1876, Government ceased to hold shares and to appoint directors. But in 1877 the bank invited the Administrator-General, in 1880 the Official Trustee, and later, in 1887, the Official Assignee, to seats on the board. These funeral additions may probably have been intended to restrain the exuberance of the commercial directors, but what other earthly use they

were to the Bank it is difficult to see, as they have been as mutes ever since their appointment.

* * * * * * * *

Messrs. Kettlewell, Bullen & Co., who were in the first batch of firms, dropped out for some time, and then re-appeared with the advent of Mr. Aitkin only to disappear. Messrs. Hoare, Miller & Co., who entered an appearance in 1862, seem out of favour now. Messrs. Begg, Dunlop & Co., in whose firm the late secretary's brother was a partner, were admitted in 1888, but their Mr. J. F. Macnair having, it is said, been too independent, their firm, when he resigned in 1893, languished under the cold shade of the secretary's displeasure, and their contempt was not purged until a few years ago.

* * * * *

Now, I am not sure that this arrangement, under which a seat on the direction of the Bank of Bengal becomes apparently an asset in the partnerships of certain firms, is an absolutely wise and prudent one. The firms in question are undoubtedly of the highest standing; but firms, even of the highest standing, do not possess a monopoly of all those requisites which go to make an ideal bank director. It is common knowledge that the partners in these firms have not always been men of outstanding ability. The aim of the bank should be to secure the very best men, not to have the partners in certain firms running in and out of the board room with their qualifying scrip, like dogs at a fair. Firms like Apcar & Co., Balmer, Lawrie & Co., Birkmyre Brothers, Duncan Brothers, Finlay, Muir & Co., Graham & Co., F. W. Heilgers and Co., Kilburn & Co., Prankissen, Law & Co., Mackinnon, Mackenzie & Co., Macneill & Co., J. Thomas & Co., Williamson, Magor & Co., Andrew Yule & Co., among others, could all have furnished able directors and brought business, which is an important item. But the man in the street, rightly or wrongly, has an idea that the directors have no independence, and are simply dummies or pawns for the secretary to play with. The present is a convenient time to change all this.

* * * * *

The Bank of Bengal is an eminently conservative institution. Although founded in 1806 no reports were issued until the directors were required to do so at a general meeting of the proprietors on the 10th December 1856, or 50 years after. It would be as well if the directors now recognise that the times are changing rapidly, and that they must "wake up." The shares are now held by some thousands of proprietors, and these shareholders should have some voice in the selection of the directors. At the present moment, the annual meeting is a hole and corner affair, and very seldom more than one person is present, other than the directors. Business now has to be captured, it does not go seeking; and if the Bank of Bengal is to get that share which its position and character justifies, it must alter its methods and move with the times.

* * * * *

The real remedy is, to increase the number of commercial, and to eliminate the present Government, directors, who cannot possibly be of any useful service to the bank. The five mercantile directors are all good men and true, but seven directors for a bank of the size and importance of the Bank of Bengal, seem too few. The Bank of England has some 26 governors and directors; the large London banks have boards of a dozen and upwards. It may safely be presumed that, if the London banks have these large boards, they have them because they find them profitable and useful. The directors of the Bank of Bengal are by no means well paid, Rs. 200 a month for fees, and a special allowance in respect of the daily attendance of two of them, which must not exceed Rs. 15,000 per annum, cannot by any means be called excessive, so the ground of expense can hardly be taken as an objection.

If the Government desire to be represented on the direction of the Bank of Bengal, to which they are certainly entitled, though it must be borne in mind that they deliberately cut themselves adrift in 1876, and vacated the

three seats they then held, they should certainly, as they did before, nominate directors with some pretensions to knowledge of commerce and finance. The Comptroller-General, the Accountant-General, Bengal, or the Director-General of Statistics, should all make excellent Government directors. But *absit omen*, Government and commercial graveyards are hardly a good field to select from. Messrs. Overend, Gurney & Co. thought to enlist the services of a Mr. Edwards, an official receiver, of sorts, in bankruptcy—people know with what result.

* * * * * *

Further comments are needless.

39. *Bank of Madras.*—In every respect the same state of affairs as described about the Bank of Bengal by "Capital" is literally true about the Bank of Madras.

From Statement XIII. appended, it will be seen that (1) Messrs. Best and Co. (2) Parry and Co. (3) Barclay Orr and Davids and Brightwell (4) Arbuthnot and Co. (5) Binny and Co., had permanent seats to fill up, namely, five seats out of seven on the Board of Directors of the Bank of Madras. Messrs. Arbuthnot and Co. disappeared on their failure in 1906; Messrs. Binny and Co. had to temporarily vacate the seat at the time of Arbuthnot failure, but re-appeared in 1911.

40. The following paragraphs will enable the Commission to understand more fully the exceptional position of the Bank of Madras.

I. The Presidency Banks are practically foreign banks like other exchange banks, and Indians are treated by them as foreigners in their own country.

II. Indians are excluded from the board, and superior executive offices of the Bank of Madras. The Bank of Madras was established in 1843, but there has never been an Indian on the board of directors for the last three-quarters of a century. Why should the two vacant seats not be filled by the election of two Indians?

It is said the proportion of advances of the Bank of Madras made to Indians and Europeans is six to one, but there has never been a single independent Indian colleague to guide the board in fixing the personal credits for Indians.

The Bank of Bengal was established in 1806, but, so far as I know, has never had an Indian director.

III. The European directors are fluctuating, and are engaged in their own mercantile business. In certain cases they have been indebted (sometimes heavily) to the Bank, and are not in a position to exercise that check and control which is essential to keep under curb the executive officers. This leaves a free hand to the European executive officers of the Bank to manage the finances of the institution as they like. I have been supplied with a copy of the byelaws of the Bank of Madras, but I do not find any rules required to be made under section 63, sub-clauses (*g*), (*h*), (*i*), (*j*). and (*m*).

IV. The directors are themselves exporters, importers, or manufacturers competing with the Indians to whom they have to allow credit from the bank. The credit and rates of interest for Indians is fixed by them.

V. The directors are not in touch with the Indians except for their individual personal business with retail dealers through their Dubashes,* who guarantee the credit allowed by the firm. As the Dubashes furnish securities for the guarantee, the firms are not particular about making detailed inquiries. There is no co-partnership between the Indians and Europeans in the Madras Presidency. Thus, they are unable to know the means and positions of the Indian parties to whom the Bank lends.

VI. Their information is derived either from the executive officers who are not fully in touch with Indians, or on second-hand information from their subordinates or interested parties.

VII. The executive officers (like the directors of the Bank of Madras) are innocent of the local vernaculars, and have to do business through interpreters. As the executive officers have to depend upon the information

* Dubash = an interpreter or broker attached to a mercantile house or bank for the purpose of transacting business with Indians.

supplied by their subordinates or interpreters, there is danger of corruption in the matter of advances.

VIII. Instead of availing themselves of the services of Indians for higher appointments, raw men are imported from abroad, who have to gain experience when they reach India.

The maximum salary of an Indian in any office in the bank (except the head cashiership) is generally the minimum salary of a European assistant newly imported. The loan accounts of European firms are not allowed to be handled by native assistants at some offices.

IX. The three Presidency Banks have in all about 54 branches, but they have never put an Indian in charge of a branch office, even as agent or accountant.

## THE QUESTION OF THE CAPITAL OF THE PROPOSED CENTRAL BANK.

41. The following are some of the questions which should be addressed to those who advocate the establishment of a Central State Bank :—

(*a*) What will be the amount of capital of the proposed bank?

As all the balances and revenues of the Government of India would be placed with the bank, and these would be increased by further deposits of the public, the capital must be enlarged in proportion to the increased liabilities. (Of course we must leave out of the question the capital required for supporting the exchange.) On the other hand, owing to the difficulties of investments in the slack season due to the restriction of not employing funds outside India, a large amount of capital would not earn any substantial dividend.

(*b*) Should the capital be sterling or rupee?

Sterling capital is necessary to attract European capital, one of the reasons for the formation of the bank being to cheapen money. It may also simplify account keeping. But if the capital of the bank is in sterling it is a slur upon the integrity of the rupee, although the bank would be formed for the express purpose of supporting the exchange value of the rupee as legal tender. A compromise has been suggested that the capital should be in rupees and the accounts published in terms of sovereigns of rupees 15 each.

(*c*) Where is the extra capital to come from?

(1) Is any further part to be open to the British public? If so, how much?

(2) Is Government supposed to subscribe? If so, how much?

My own opinion is that as the bank is to be established in the supposed interests of India, the whole of the capital ought to be held in that country.

(*d*) 10,000,000*l.* sterling is the amount which has so far been fixed for the capital of the bank to earn a dividend of 5 per cent. per annum. 9,000,000*l.* will be absorbed in the allotment of shares to the existing body of shareholders of the three banks who are mainly Europeans.

Will the Indian public and the Government be satisfied with an allotment of the paltry sum of 1,000,000*l.* sterling only?

What control will this amount give to the Government and the Indian public?

## CONTROL OF THE NEW BANK.

42. Is there going to be a divided control of—

1. The shareholders in India.
2. Shareholders outside India.
3. The Secretary of State and the Government of India, or is it proposed to leave the control to the Government only?

As will be seen from the working of the Presidency Banks, the shareholders are not exercising any control on the Board. They are under the impression that as the Government entrusts to them its balances it is also keeping a sufficient watch on the management and prosperity of the banks. As a matter of fact, the Government is holding aloof so as not to interfere

with the free working of the institution. So far as I am aware, no strict supervision is exercised by Government lest it should incur the onus of direct responsibility to the shareholders.

Hereafter the Government must have a larger control. The banks should act under a code of strict rules sanctioned by the Government, and to see that they are enforced the Government's representatives should take part in the management. How far the Government representatives should be left to decide matters on their own responsibility without consulting the authorities at Simla or Whitehall is a subject for consideration. Frequent consultations between the Government and a body of officials and non-officials would mean red tape and delay.

Government directors have been suggested. There would still remain certain difficulties as to the appointment and control by the Government representatives. Will they be officials or non officials, Europeans or Indians? Probably the former, although they have no special training and must go out of office when they get some experience as only senior officers can be appointed.

The Government directors in the past have not been a success.

*Conclusion.*

43. From the foregoing it is clear that there is no necessity for a Central State Bank for India on the lines suggested by its advocates.

As the Presidency Banks have got the monopoly of all Government business and their close connection with the Government has produced a general impression that the State is responsible for their good conduct and prosperity, some Government control and check is necessary on the working of these banks. It is on the close connection and monopoly of the Government business that these banks are trading and it is this which induces the public to deal with them in preference to other equally sound and strong institutions.

44. In my opinion if some alterations are made in the Presidency Banks Act to facilitate transactions among themselves during the busy season on reasonable terms for protection, and if the defects pointed out by me in the control and management of the banks are removed, the three Presidency Banks may be allowed to keep the Government balances with them, but only to the extent to which they hold under present arrangements. Any further patronage or concessions should be entirely dependant upon the services which they may render to the country as a whole in the future.

VIDYA SAGAR PANDYA.
Secretary, Indian Bank, Ltd., Madras.

Indian Specie Bank, Ltd.,
65, Bishopsgate Street, London, E.C.,
21st October 1913.

## STATEMENT I.

GENERAL STATEMENT of GROSS REVENUE and EXPENDITURE, charged against REVENUE or CAPITAL, with ANNUAL SURPLUS or DEFICIT and CASH BALANCES (in INDIA and ENGLAND).

| | | 1900-1. | 1901-2. | 1902-3. | 1903-4. | 1904-5. | 1905-6. | 1906-7. | 1907-8. | 1908-9. | 1909-10. | 1910-11. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Gross Revenue | India | 64,505,997 | 64,140,933 | 64,600,947 | 70,220,835 | 70,471,190 | 69,890,637 | 72,270,089 | 70,284,638 | 69,159,795 | 73,882,288 | 79,706,616 |
| | England | 218,076 | 491,208 | 694,805 | 746,744 | 636,103 | 951,232 | 874,465 | 718,637 | 601,740 | 711,207 | 975,857 |
| Total | | 64,724,073 | 64,632,141 | 65,295,752 | 70,967,579 | 71,107,293 | 70,841,869 | 73,144,554 | 71,003,275 | 69,761,535 | 74,593,495 | 80,682,473 |
| Expenditure charged to Revenue | India | 45,852,804 | 42,311,859 | 43,865,937 | 49,823,762 | 48,187,459 | 50,132,176 | 52,846,771 | 52,209,962 | 54,574,086 | 54,863,938 | 57,164,698 |
| | England | 17,200,957 | 17,368,655 | 18,361,821 | 18,146,474 | 19,463,757 | 18,617,465 | 19,208,408 | 18,487,267 | 18,925,159 | 19,122,916 | 19,581,563 |
| Total | | 63,053,751 | 59,680,514 | 62,227,758 | 67,970,236 | 67,651,216 | 68,749,641 | 71,555,179 | 70,697,229 | 73,499,245 | 73,986,854 | 76,746,186 |
| Net Revenue in India | | 18,653,193 | 21,829,074 | 20,735,010 | 20,397,073 | 22,283,731 | 19,758,461 | 19,923,318 | 18,074,676 | 14,585,709 | 19,018,350 | 22,541,993 |
| Net Expenditure in England | | 16,982,881 | 16,877,447 | 17,667,016 | 17,399,730 | 18,827,654 | 17,666,233 | 18,333,943 | 17,768,630 | 18,323,419 | 18,411,709 | 18,605,706 |
| Ultimate Result | Surplus | 1,670,312 | 4,951,627 | 3,067,994 | 2,997,343 | 3,456,077 | 2,092,228 | 1,589,375 | 306,046 | — | 606,641 | 3,936,287 |
| | or Deficit | — | — | — | — | — | — | — | — | 3,737,710 | — | — |
| Expenditure not charged to Revenue, Capital Outlay on— | | | | | | | | | | | | |
| Railways | India | 787,863 | 2,670,400 | 3,034,657 | 3,233,331 | 4,401,930 | 7,360,894 | 5,363,350 | 8,152,831 | 6,158,581 | 4,224,631 | 7,054,441 |
| | England | 647,002 | 853,201 | 1,529,344 | 1,301,774 | 1,495,093 | 2,049,305 | 2,551,691 | 2,414,214 | 3,329,587 | 2,096,986 | 1,860,764 |
| Irrigation Works | India | 582,606 | 540,234 | 557,512 | 504,089 | 853,913 | 524,245 | 718,259 | 758,505 | 923,623 | 1,015,821 | 1,142,472 |
| | England | 7,877 | 7,317 | 6,679 | 3,809 | 7,259 | 31,949 | 79,368 | 87,217 | 59,866 | 36,528 | 61,416 |
| Total | | 2,025,348 | 4,071,152 | 5,128,192 | 5,043,003 | 6,258,195 | 9,966,393 | 87,126,668 | 11,412,767 | 10,471,657 | 7,373,966 | 10,119,093 |
| Total charges, including Capital Expenditure | India | 47,223,273 | 45,522,493 | 47,458,106 | 53,561,182 | 52,943,302 | 58,017,315 | 58,428,380 | 61,121,298 | 61,656,290 | 60,104,390 | 65,361,536 |
| | England | 17,855,836 | 18,229,173 | 19,897,844 | 19,452,057 | 20,966,109 | 20,698,719 | 21,839,467 | 20,988,698 | 22,314,612 | 21,256,430 | 21,503,743 |
| Total | | 65,079,109 | 63,751,666 | 67,355,950 | 73,013,229 | 73,909,411 | 78,716,034 | 80,267,847 | 82,109,996 | 83,970,902 | 81,360,820 | 86,865,279 |
| Closing Cash Balance | India | 10,598,981 | 11,880,301 | 12,082,416 | 11,869,552 | 10,749,770 | 11,781,457 | 10,328,237 | 12,851,723 | 10,235,827 | 12,295,428 | 13,566,922 |
| | England | 4,091,926 | 6,693,137 | 5,767,787 | 7,294,782 | 10,262,581 | 8,436,519 | 5,606,812 | 5,738,489 | 8,453,715 | 15,809,618 | 18,174,349 |
| Total | | 14,690,907 | 18,573,438 | 17,850,203 | 19,164,334 | 21,012,351 | 20,217,976 | 15,935,049 | 18,590,212 | 18,689,542 | 28,105,046 | 31,741,271 |

## STATEMENT II.

(Referred to in para. 18.)

ADDITIONS to the BANK and other RESERVES in GOLD of some important COUNTRIES.

| Banks and Treasuries. | 31st December 1889. | 31st December 1899. | 31st December 1910. |
|---|---|---|---|
| | £ | £ | £ |
| Bank of England | 17,784,000 | 29,002,000 | 31,095,000 |
| Scotch Banks of Issue | 4,591,000 | 6,227,000 | 4,918,000 |
| Irish Banks of Issue | 3,480,000 | 2,816,000 | 3,649,000 |
| Germany—Imperial Bank | 12,234,000 | 22,939,000 | 32,760,000 |
| German War Fund | 5,869,000 | 5,869,000 | 5,869,000 |
| Austria-Hungary | 5,426,000 | 43,982,000 | 54,971,000 |
| Bank of France | 50,471,000 | 74,310,000 | 130,050,000 |
| Bank of Spain | 6,009,000 | 13,485,000 | 16,301,000 |
| Bank of Portugal | 1,028,000 | 1,075,000 | 1,348,000 |
| Bank of Netherlands | 5,069,000 | 3,730,000 | 10,391,000 |
| National Bank of Belgium | 2,606,000 | 4,329,000 | 5,037,000 |
| Bank of Italy | 18,132,000 | 15,702,000 | 38,670,000 |
| Bank of Sicily | | | 2,261,000 |
| Bank of Naples | | | 8,091,000 |
| Bank of Russia | 42,565,000 | 90,275,000 | 130,288,000 |
| Bank of Finland | 861,000 | 888,000 | 873,000 |
| National Bank of Romania | 2,011,000 | 1,444,000 | 4,759,000 |
| National Bank of Bulgaria | 426,000 | 427,000 | 1,254,000 |
| National Bank of Servia | 345,000 | 286,000 | 992,000 |
| Imperial Ottoman Bank | 740,000 | 1,384,000 | 6,171,000 |
| Royal Bank of Sweden | 1,379,000 | 2,195,000 | 4,482,000 |
| National Bank of Denmark | 2,754,000 | 3,249,000 | 4,085,000 |
| National Bank of Norway | 1,755,000 | 1,755,000 | 1,904,000 |
| Banks of Switzerland | 2,364,000 | 3,890,000 | 6,187,000 |
| Bank of Greece | 21,000 | 79,000 | 40,000 |
| United States—In National Banks | 17,348,000 | 41,860,000 | 46,849,000 |
| In State Banks | 5,306,000 | 16,400,000 | 16,323,000 |
| In the Treasury | 64,459,000 | 82,279,000 | 226,731,000 |
| Bank of Australia | 18,465,000 | 21,862,000 | 37,915,000 |
| Canadian Treasury and Banks | 1,505,000 | 4,651,000 | 22,235,000 |
| Banks of South Africa | 1,028,000 | 6,740,000 | 10,357,000 |
| Total | 296,031,000 | 503,850,000 | 866,856,000 |

## STATEMENT III.

(Referred to in para. 18.)

ABSORPTION of GOLD for purposes other than the ADDITION to BANK RESERVES from 1890 to 1910.

| | Net Addition to Stock of Gold. | Addition to Reserve. | Net Absorption for other Purposes. | Population. |
|---|---|---|---|---|
| | £ | £ | £ | |
| United Kingdom | 115,200,000 | 13,807,000 | 101,393,000 | 45,216,665 |
| United States of America | 276,900,000 | 202,790,000 | 74,110,000 | 92,027,874 |
| Germany | 144,000,000 | 20,526,000 | 123,474,000 | 64,903,423 |
| France | 205,700,000 | 79,579,000 | 126,121,000 | 39,252,245 |
| Italy | 30,700,000 | 10,041,000 | 40,741,000 | 34,687,000 |
| India | 126,600,000 | 6,500,000 | 120,100,000 | 315,086,372 |
| Total | 899,100,000 | 313,161,000 | 585,939,000 | |

## STATEMENT IV.

CORRESPONDENCE REFERRED TO IN PARA. 19 (II.).

1. Letter from the Secretary, Indian Bank, Ltd., to the Currency Officer, Fort St. George, Madras, dated 25th January 1910.

I beg to enquire if you issue sovereigns to the public, and if so, whether you can arrange to issue to us 500*l.* sovereigns the cost of which will be sent to you on your reply.

2. Letter from the Assistant Accountant-General, in charge of Paper Currency Department, to the Secretary, The Indian Bank Ltd., Madras, dated 26th January 1910.

With reference to your letter No. A. 10/444 dated 25th January 1910, I have the honour to state that sovereigns are issued to the public at not more than 100*l.* a day to each applicant.

3. Letter from Mr. Vidya Sagar Pandya to the Accountant-General, Madras, dated 15th August 1913.

I beg to enclose herewith a copy of my letter addressed to you as Secretary of the Indian Bank, Limited, dated the 25th January 1910, and a copy of your reply to the same dated the 26th idem. I shall feel obliged if you will kindly favour me with a copy of instructions or Government Order under which the issue of sovereigns to the public was so restricted and the circumstances under which it was done. If you have any other circulars or orders issued during the years 1908 up to date regarding the issue of sovereigns to the public, I have to request you to kindly send copies of the same. This information is required in connection with my evidence before the Royal Commission on Indian Finance and Currency in London.

4. Letter from the Officiating Commissioner of Paper Currency to Mr. Vidya Sagar Pandya dated 20th August 1913.

With reference to your letter dated 15th August 1913, I have the honour to state that, formerly the issue of the sovereigns used to be restricted with reference to the available balance from time to time but that no restriction is now placed over the issue of sovereigns to the public, except that the issue of more than 10,000*l.* to a single party on one day requires the sanction of the Comptroller-General to whom the purpose for which the gold is asked for has to be reported.

## STATEMENT V.

(Referred to in para. 20).

STATEMENT of some of the INVESTMENTS in INDIA.

(In Lakhs of Rupees.)

| Year. | Total Capital and Reserves of Banks in India. | Private Deposits in Banks. | Total. | Post Office Savings Banks closing Balance. | Capital of Joint Stock Companies Registered in India. | Amount of Policies (issued by 17 Insurance Companies) in India. | Permanent Debt in India. | Year. |
|---|---|---|---|---|---|---|---|---|
| 1890 - - | 4,99 | 25,01 | 30,00 | 635 | 24,25 | 11 | — | 1890 |
| 1891 - - | 5,05 | 26,22 | 31,27 | 706 | 26,35 | 12 | — | 1891 |
| 1892 - - | 5,12 | 25,07 | 30,19 | 782 | 26,46 | 16 | — | 1892 |
| 1893 - - | 5,27 | 24,31 | 29,58 | 827 | 26,65 | 15 | — | 1893 |
| 1894 - - | 5,43 | 27,39 | 32,82 | 840 | 27,06 | 21 | — | 1894 |
| 1895 - - | 5,85 | 29,09 | 34,94 | 904 | 28,87 | 22 | — | 1895 |
| 1896 - - | 6,09 | 28,45 | 34,54 | 964 | 30,35 | 17 | — | 1896 |
| 1897 - - | 6,51 | 26,06 | 32,57 | 929 | 32,09 | 23 | — | 1897 |
| 1898 - - | 6,89 | 27,16 | 34,05 | 943 | 34,60 | 59 | — | 1898 |
| 1899 - - | 6,94 | 29,54 | 36,48 | 965 | 34,46 | 45 | — | 1899 |
| 1900 - - | 6,87 | 31,46 | 38,33 | 1,004 | 36,09 | 52 | — | 1900 |
| 1901 - - | 7,15 | 35,47 | 42,62 | 1,068 | 37,22 | 47 | 116,19 | 1901 |
| 1902 - - | 7,31 | 41,80 | 49,11 | 1,142 | 37,91 | 64 | 117,55 | 1902 |
| 1903 - - | 7,36 | 45,06 | 52,42 | 1,233 | 38,57 | 81 | 119,42 | 1903 |
| 1904 - - | 7,55 | 49,80 | 57,35 | 1,341 | 40,17 | 89 | 122,29 | 1904 |
| 1905 - - | 7,86 | 51,30 | 59,16 | 1,399 | 41,63 | 87 | 126,08 | 1905 |
| 1906 - - | 8,30 | 57,09 | 65,39 | 1,477 | 44,05 | 97 | 130,45 | 1906 |
| 1907 - - | 9,48 | 61,28 | 70,76 | 1,518 | 50,40 | 1,40 | 132,83 | 1907 |
| 1908 - - | 9,78 | 64,39 | 74,17 | 1,523 | 56,72 | 1,78 | 134,56 | 1908 |
| 1909 - - | 10,32 | 73,41 | 83,73 | 1,587 | 61,18 | 2,24 | 136,84 | 1909 |
| 1910 - - | 10,67 | 82,31 | 92,99 | 1,692 | 63,73 | 2,83 | 138,09 | 1910 |
| 1911 - - | 11,13 | 84,91 | 96,04 | 1,890 | 69,02 | 2,84 | — | 1911 |
| 1912 - - | — | — | — | — | — | 2,62 | — | 1912 |

## STATEMENT VI.

(Referred to in para. 20.)

EXTRACT from "CAPITAL," June 25th, 1908.

But how is this to be managed? One thing certain, it cannot be managed in a day. A great preparation is needed before the ingrained hereditary custom of hoarding will break down before the light which is now breaking in upon every other thing in India. And the preparation must begin in the primary schools, and be carried right up through the higher schools, colleges and universities. If the sons of the wealthy nobles and zemindars got a good all-round education from their youth up, not merely of a literary order, but were trained in the sciences and the arts and in their application to the development of everything relating to modern life. If their minds got lightened up by coming, in the course of their education, into practical contact with the fascinations (for example) of electricity and the immense possibilities of its applications to industrial life; to the wonderful revelations of chemistry; to engineering, civil and practical; to textile manufacturers; to agricultural and commercial enterprise and to the providing of facile means of inter-communication by canals and railways of commercial transport throughout India and to its ports—if, I say, the sons of the wealthy of the land were brought up through an education such as I have indicated, the great hoards would begin gradually to open to be directed into fruitful channels, and the Government of India would never be at a loss where to get money for needful railway construction. The leaders of the *swadeshi* movement (all success to them) may lay to heart this truth that until the vast hoards of India's internal wealth are available for the development of the country, swadeshi will lead a starved life. Education, education, education, are the three requisites for thawing the frozen hoards of India. And this cannot be realised a day too soon.

## STATEMENT VII.

(Referred to in para. 27, III.)

The DEVELOPMENT of CREDIT and of IMPORTS and EXPORTS in INDIA.

| Year. | Capital and Reserve of Banks in India in Lakhs of Rs. | Private Deposits in Banks in India in Lakhs of Rs. | Clearing House Returns, Calcutta, Bombay, and Madras in Lakhs of Rs. | Index Numbers. | | | | Imports and Exports of Merchandise and Treasure excluding Government Stores. | | Year. |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Capital. | Deposits. | Clearing House Returns. | Total. | In Lakhs of Rs. | Index Nos. | |
| 1890 | 4,99 | 25,01 | 1,37,75 | 96 | 98 | 94 | 96 | 193,16 | 99 | 1890 |
| 1891 | 5,05 | 26,22 | 1,46,50 | 98 | 102 | 100 | 100 | 192,49 | 98 | 1891 |
| 1892 | 5,12 | 25,07 | 1,43,81 | 99 | 98 | 98 | 98 | 193,07 | 99 | 1892 |
| 1893 | 5,27 | 24,31 | 1,46,08 | 102 | 95 | 100 | 99 | 202,86 | 104 | 1893 |
| 1894 | 5,43 | 27,39 | 1,58,34 | 105 | 107 | 108 | 107 | 196,70 | 100 | 1894 |
| 1895 | 5,85 | 29,09 | 1,75,79 | 113 | 114 | 120 | 116 | 201,18 | 103 | 1895 |
| 1896 | 6,09 | 28,45 | 1,81,23 | 118 | 111 | 124 | 118 | 193,71 | 99 | 1896 |
| 1897 | 6,51 | 26,06 | 1,90,73 | 126 | 102 | 130 | 119 | 194,42 | 99 | 1897 |
| 1898 | 6,89 | 27,16 | 1,76,25 | 133 | 106 | 120 | 120 | 206,39 | 105 | 1898 |
| 1899 | 6,94 | 29,54 | 2,02,55 | 134 | 115 | 138 | 129 | 208,60 | 107 | 1899 |
| 1900 | 6,87 | 31,46 | 2,12,35 | 133 | 123 | 145 | 134 | 207,58 | 106 | 1900 |
| 1901 | 7,15 | 35,47 | 2,11,49 | 138 | 139 | 144 | 140 | 234,09 | 120 | 1901 |
| 1902 | 7,31 | 41,80 | 2,29,49 | 141 | 163 | 157 | 154 | 241,68 | 124 | 1902 |
| 1903 | 7,36 | 45,06 | 2,43,91 | 142 | 176 | 166 | 165 | 277,88 | 142 | 1903 |
| 1904 | 7,55 | 49,80 | 2,51,07 | 146 | 195 | 171 | 171 | 295,20 | 151 | 1904 |
| 1905 | 7,86 | 51,30 | 3,00,45 | 152 | 200 | 205 | 186 | 292,18 | 149 | 1905 |
| 1906 | 8,30 | 57,09 | 3,31,48 | 161 | 223 | 226 | 203 | 318,14 | 163 | 1906 |
| 1907 | 9,48 | 61,28 | 3,66,38 | 183 | 239 | 250 | 224 | 345,53 | 177 | 1907 |
| 1908 | 9,78 | 64,39 | 3,56,20 | 189 | 252 | 243 | 228 | 302,89 | 155 | 1908 |
| 1909 | 10,32 | 73,41 | 3,61,00 | 200 | 287 | 246 | 244 | 348,77 | 178 | 1909 |
| 1910 | 10,67 | 82,31 | 4,10,08 | 207 | 322 | 280 | 270 | 386,26 | 197 | 1910 |
| 1911 | 11,13 | 84,91 | 4,54,51 | 215 | 332 | 310 | 286 | 430,19 | 220 | 1911 |

## STATEMENT VIII.

(Referred to in para. 27, IV.)

PERCENTAGE of CASH to LIABILITIES of the THREE PRESIDENCY BANKS.

| Year ending December. | Bank of Bengal. | Bank of Bombay. | Bank of Madras. |
|---|---|---|---|
| 1893 | 44·69 | 56·5 | 44·0 |
| 1894 | 53·68 | 62·3 | 43·1 |
| 1895 | 47·21 | 51·7 | 43·8 |
| 1896 | 36·41 | 31·5 | 42·8 |
| 1897 | 39·11 | 28·0 | 37·7 |
| 1898 | 40·18 | 32·9 | 43·2 |
| 1899 | 30·83 | 29·6 | 30·6 |
| 1900 | 31·95 | 24·3 | 27·4 |
| 1901 | 39·90 | 35·2 | 37·6 |
| 1902 | 39·17 | 42·0 | 43·5 |
| 1903 | 31·86 | 29·8 | 43·9 |
| 1904 | 38·26 | 40·6 | 37·5 |
| 1905 | 28·36 | 32·8 | 35·7 |
| 1906 | 30·97 | 37·0 | 36·3 |
| 1907 | 25·65 | 33·8 | 35·4 |
| 1908 | 28·41 | 39·7 | 30·3 |
| 1909 | 31·40 | 35·2 | 25·8 |
| 1910 | 28·02 | 35·4 | 28·8 |
| 1911 | 36·82 | 36·7 | 24·2 |
| 1912 | 33·18 | 24·9 | 24·0 |

Taken from the Investor's India Year Books, 1911 and 1913.

# STATEMENT IX.

(Referred to in para. 30B.)

ROUGH ANALYSIS of the LIST of SHAREHOLDERS of the BANK of MADRAS, August 1913.

*A.*—

| | Ladies. | Number of Shareholders entitled to no Vote. | Number of Shareholders showing the Number of Votes each are entitled to. | | | | | | | | | | Total Number of Shareholders. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8 to 10. | 11. | 12. | |
| Indian | 25 | 89 | 65 | 16 | 4 | 2 | 1 | 2 | — | — | 1 | 1 | 181 |
| European | 200 | 235 | 365 | 96 | 43 | 12 | 4 | 6 | 1 | Nil | — | — | 762 |
| Grand Total | 225 | 324 | 430 | 112 | 47 | 14 | 5 | 3 | 1 | Nil | 1 | 1 | 943 |

*B.*—

| | Shares. | Rupees. |
|---|---|---|
| Number of shares held by natives | 3,342½ | = 1,67,12,50 |
| Europeans | 11,675½ | = 5,82,87,50 |
| Total | | 7,50,00,00 |

*C.*—Classification of Indian shareholders :—

| | |
|---|---|
| Mahomedans | 13 |
| Bengali | 1 |
| Parsi | 47 |
| Christians | 4 |
| Hindus | 116 |
| Total | 181 |

## STATEMENT X.

(Referred to in para. 30B.)

ANALYSIS of ATTENDANCE of SHAREHOLDERS at the GENERAL MEETING of the BANK of MADRAS.

| Year of the General Meeting. | Number of Directors on the Board at the date of the Meeting. | Present in Person. | | | Present by Proxy. | | |
|---|---|---|---|---|---|---|---|
| | | 1. Directors, Ex-Directors, and Partners of their Firms. | 2. Members of Staff. | 3. Shareholders other than Directors, Ex-Directors, and Partners or Members of the Staff. | 1. Proxies in favour of Directors or Partners. | 2. Proxies in favour of Staff. | 3. Proxies in favour of Shareholders other than Directors, Ex-Directors, and Partners or Members of Staff. |
| 1893 | — | — | — | — | — | — | — |
| 1894 | — | — | — | — | — | — | — |
| 1895 | — | — | — | — | — | — | — |
| 1896 | — | — | — | — | — | — | — |
| 1897 | — | — | — | — | — | — | — |
| 1898 | — | — | — | — | — | — | — |
| 1899 | — | — | — | — | — | — | — |
| 1900 | — | — | — | — | — | — | — |
| 1901 | — | — | — | — | — | — | — |
| 1902 | — | — | — | — | — | — | — |
| 1903 | — | — | — | — | — | — | — |
| 1904 | — | — | — | — | — | — | — |
| 1905 | — | — | — | — | — | — | — |
| 1906 | — | — | — | — | — | — | — |
| 1907 | — | — | — | — | — | — | — |
| 1908 | — | — | — | — | — | — | — |
| 1909 | — | — | — | — | — | — | — |
| 1910 | — | — | — | — | — | — | — |
| 1911 | — | — | — | — | — | — | — |
| 1912 | — | — | — | — | — | — | — |
| 1913 | 7 | 7 | 2 | 3 (includes one Broker). | — | — | — |

## STATEMENT XI.

(Referred to in para. 30B.)

EXTRACT from "THE MADRAS MAIL," MADRAS.

The Annual General Meeting attended by only one shareholder and held in a room in which the temperature was registering 95 degrees is probably unique in the annals of banking. Such were two of the best remarkable features of yesterday's annual meeting of the Bank of Madras. Of the temperature we prefer to say nothing. Heat, we are told, generates heat, and it would be impossible to refer to the subject coolly. As regards the presence of only a solitary shareholder we consider that a greater compliment could not be paid to the Board of Directors and the executive staff. It proves that the shareholders as a body consider that the affairs of the bank are being conducted in the best possible manner and that there is no fault to be found anywhere or with anybody.

Mr. Decaster, the one representative of the shareholders present, when he found that he was unable to pass his vote of confidence and congratulations on account of there being no seconder, must have felt himself in a rather awkward predicament, but the intention was no doubt accepted with the same pleasure that it would have been had it been possible to embody it.

The Hon. Mr. Byson's speech, though addressed to practically empty chairs, will no doubt be read in print by the majority of the shareholders. . .

## STATEMENT XII.

(Referred to in para. 32.)

AUDITORS of the BANK of MADRAS.

| Names of Auditors. | 1898 | 99 | 1900 | 01 | 02 | 03 | 04 | 05 | 06 | 07 | 08 | 09 | 10 | 11 | 12 | 13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. A. Ronaldson - - - | P | P | P | P | P | P | P | – | – | – | – | – | – | – | – | – |
| 2. G. L. Yonge - - | P | P | P | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 3. E. J. Firth - - - | – | – | – | P | P | P | P | P | P | P | P | P | – | – | – | – |
| 4. E. J. Drysdale - - | – | – | – | – | – | – | – | P | P | – | – | – | – | – | – | – |
| 5. Fraser & Ross - - | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| *a.* Ian S. Fraser, C. A. - | – | – | – | – | – | – | – | – | – | P | P | P | – | – | P | P |
| *b.* Graham Ross, C. A. - | – | – | – | – | – | – | – | – | – | – | – | – | P | P | – | – |
| 6. A. H. Lewis, C. A. - - | – | – | – | – | – | – | – | – | – | – | – | – | P | P | P | P |

## STATEMENT XIII.

(Referred to in para. 39.)

BANK OF MADRAS.

LIST of FIRMS from which the DIRECTORS of the BANK of MADRAS are elected.

| Names. | 1898 | 99 | 1900 | 01 | 02 | 03 | 04 | 05 | 06 | 07 | 08 | 09 | 10 | 11 | 12 | 13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Best & Co. - - - | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P |
| 2. Parry & Co. - - - | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P |
| 3. Barclay Orr and Davids and Brightwell. | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P |
| 4. Wilson & Co. - - | – | P | P | P | P | P | P | P | P | P | P | P | P | P | – | – |
| 5. Binny & Co. - - - | P | P | P | P | P | P | P | P | – | – | – | – | – | P | P | P |
| 6. Arbuthnot & Co. - - | P | P | P | P | P | P | P | P | Failed in 1906. | | | | | – | – | – |
| 7. Dymes & Co. - - | P | P | P | P | P | P | – | – | – | – | – | – | – | – | – | – |
| 8. King and Josselyn - - | – | – | – | – | – | – | P | P | P | P | P | P | – | – | – | – |
| 9. Gordon Woodroffe & Co. | – | – | – | – | – | – | – | – | P | P | P | P | P | – | – | P |
| 10. South Indian Export Co. | – | – | – | – | – | – | – | – | P | P | – | – | – | – | – | – |
| 11. T. A. Taylor & Co. - | – | – | – | – | – | – | – | – | – | – | P | P | P | P | – | P |
| 12. Bombay Co. - - - | – | – | – | – | – | – | – | – | – | – | – | – | P | P | P | – |
| 13. Branson and Branson - | – | – | – | – | – | – | – | – | – | – | – | – | – | – | P | – |
| 14. Walker & Co. - - | – | – | – | – | – | – | – | – | – | – | – | – | – | – | P | P |
| Total Number of Directors - | 6 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |

# APPENDIX XXXI.

## Statement of Evidence submitted by Mr. Stanley Reed, LL.D., Editor of "The Times of India," Bombay.

### I.—*Indian Finance and Indian Politics.*

1. The main point which I would venture to place before the Commission is that Indian finance cannot be dissociated from Indian politics. The two are indissolubly linked. I would quote in support of this view the authority of Lord Cromer, himself a former Finance Minister of India, who said :—

> "It is essential to bear in mind that the difficulties which beset this question (the preferential question) are not solely fiscal; but also political. This feature is almost invariably characteristic of oriental finance and nowhere is it more prominent than in India."*

I submit then that the questions relating to Indian finance and currency must be considered in relation to the political and economic condition of India. In both respects the country has undergone a profound revolution in the past 15 years.

2. The most remarkable political phenomenon of modern times is the renaissance of Asia. This has been aptly described as the rapid transformation of the Asiatic peoples from a state of passive acquiescence in the act of being governed into a quick desire to govern themselves. These forces have been seen at work in Japan; they are now operating in China. They have affected the foundations of Indian Society, where they gave rise to the movement which is generically known as Indian Unrest.

3. No modern movement has been more widely misunderstood. Attention has been too largely concentrated on the maleficent aspect of the Unrest —the violent political agitation accompanied by anarchical crime. Behind these malignant forces there has stood a great quickening of the dry bones of India, affecting every phase of society and stimulating the national life to an unprecedented degree.† These new forces have permitted a decennium of unparalleled activity—political, economic and social. The transformation is so great that it has led to the commonplace amongst experienced administrators, that the country is changing so fast that no one who has been absent five years is qualified to pronounce a confident opinion on its present day problems. It was to meet these altered conditions that the Legislative Councils were enlarged and their powers expanded, and the administration liberalised, in 1909. The scope and purpose of these changes are indicated in the last official report on the condition of India :—

> "There has been noticeable of recent years a certain quickening of interest among the more educated classes in India, in questions affecting the public welfare—not only in political questions in the narrower sense, but also in questions regarding such subjects as education, sanitation, and the development of Indian industries. With this has gone a desire to take a larger share in shaping the policy of Government and in the work of administration. The momentous changes in the constitution and functions of the Legislative Councils introduced under the Indian Councils Act of 1909 had their origin in a recognition of these aspirations and a desire to entrust to the leaders of the Indian peoples a greater share in legislation and government, and wider opportunities of expressing their views on administrative measures."‡

4. In the unreformed Imperial Legislative Council no representative of commerce and industry took his seat as of right, although the chairman of the Calcutta Chamber of Commerce was usually nominated. In the Council

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* "The Spectator," July 19th, 1913.

† The official report on the Condition of the People in the Central Provinces (1901–02 to 1911–12) asserts "No one dare say that the new spirit has not brought to India an amount of good which vastly outweighs the evil."

‡ Moral and Material Progress of India, 1901–02 to 1911–12.

to-day the chairmen of the Calcutta and Bombay Chambers sit as of right, together with a representative of the Indian commercial community. The change in the Provincial Councils is less marked, but can be indicated by two instances. The Bombay Legislative Council is entitled to elect three members to the Imperial Council. At the first election in 1909 it sent a prominent millowner and merchant, a distinguished Indian economist, and only one lawyer. At the second election in 1912 it chose one millowner, one merchant, and one economist. It is not exaggerating to say that the most notable result of the changes of 1909 has been to give commerce and industry, for the first time, their rightful place in the counsels of the Government, and to transform the character of the wider and freer debates in the Imperial and Provincial Legislative Assemblies in the direction of giving greater prominence to financial and economic questions.

5. The enlargement of the Legislative Councils upon these principles, and the quickened interest in Indian economic questions which has followed, are incompatible with the retention of large powers over the administration of Indian finance by the Secretary of State. The Government of India has been made susceptible to the impact of organised public opinion. It is the logical corollary of this policy, deliberately adopted to meet the altered conditions of India, that the Government of India shall have the power to defer to this criticism when it carries conviction. Over a wide range of administrative questions this is already the case. With regard to finance it is not. The position cannot be better indicated than it was by a writer in "The Times," who said :—

> "The recent constitutional changes in India make it most dangerous to adhere to the old methods of secret bureaucratic administration. During the past few years the leaders of the educated classes in India have been invited to assist the Administration with their criticism and advice, and every effort is made to furnish them with the information and aid which they require for the effective performance of these new responsibilities. . . . Now consider the present position of such an Indian statesman. In every branch of the administration except one his advice is welcomed and his criticisms receive full consideration, while he is given all the information that he can possibly require to enable him to form a sound opinion for himself. But when the question relates to the Secretary of State's financial transactions he finds himself in a very different atmosphere; 'The Secretary of State reserves entire discretion'; 'The India Office will not agree to that'; 'the matter rests with the Secretary of State'; he has to be content with such phrases as these. Naturally, the Bluebeard's cupboard in distant Whitehall excites his liveliest curiosity, and since he is heir to centuries of the intrigues and dishonesty that constitute the Oriental idea of administration, is it any wonder that when information is withheld he suspects the worst?"*

6. Apart from these considerations, the administration of a large part of the Indian finances by the Secretary of State is undesirable because it is opposed to the true principle of parliamentary control over India, as enunciated by the present Under-Secretary of State. Speaking of the necessity of devolution in the administration of India during the Budget debate, 1913, Mr. E. S. Montagu said :—

> "The tightness of control of each step in the machine is an excuse for the step below. . . . I know I shall be told indignantly by hon. members that, were it not for their interpolation of questions as to Indian affairs there would be no opportunity of any public and recognised criticism of the Indian Government. All these things are a matter of degree, and as time goes on, you take steps in India to bring the Government more and more face to face with the people, and every step that you take in India in that direction ought to lessen control here. But I should like to remind the House that evolution in this respect was accomplished by the recent reforms, and that in the Legislative Councils now enlarged, elective and representative, questions

* "The Times," November 1912.

are asked and answered, resolutions moved and discussed, on questions of every variety of importance concerning every branch of administration. It is only necessary to glance at the proceedings of one of these Councils to realise that a very genuine interest in administration is taken by the leaders of Indian opinion, and that there is very little danger that any real or apparent grievance, or any Government action of any kind which appears to require explanation, will pass unchallenged."

## II.—*Economic Changes in India.*

7. These political changes have been transcended by the economic revolution in India. In part the two are associated, in part they are distinct. The past 15 years have been indelibly marked by famine and pestilence. Both visitations have left permanent impressions. Famine has made the Indian people more resourceful and Indian labour more mobile; plague, unlike famine, which chiefly affects the young and aged, and is corrected by greater reproductivity, has taken heaviest toll of those in the prime of life. These two forces have effected a revolution in rural India comparable only to the results of the Black Death in England in the fourteenth century. The social and economic changes have been quickened by political activity. There can be no doubt that the swadeshi movement in Bengal, though it resulted only in a temporary and sterile boycott in the Province where it had its origin, markedly stimulated industrial progress in India. Industrial development became imbued with the missionary spirit, and Indians of all classes realised that they were pursuing a genuinely patriotic policy in assisting in the development of the industrial resources of their country, either by actually promoting industrial enterprises themselves, or in investing their wealth in them. It is difficult for those who do not live in India, and who are not actually in touch with its sentiments, to realise how deep this movement has gone. Some evidence lies on the surface, like the growth of trade, the development of industry, the increase in banking deposits, the enlistment of Indian politicians in industry and commerce, the floating of the Tata Iron and Steel Works, and Hydro Electric Works,—the first essay of Indians in major industry—with Indian capital, the enthusiasm with which private gentlemen have given themselves to the propagation of co-operative credit, the establishment of organisations for the uplifting of the masses and the depressed classes on a basis of service. But for the most part this revolution is unseen.

8. Although the economic literature relating to India is defective, still we are not without the means of gauging, from official records, the magnitude of these changes. They are indicated in the chapter on "The Condition of the People" in the last report on the Moral and Material Progress of India for the decennium ended 1912. This reflects in language strongly marked by official conservatism the economic revolution which has been silently effected. These conditions are illustrated by the following excerpts:—

> *Punjab.*—"The outstanding features of the decade were plague and colonisation. The first resulted in a reduction of the population in the census decade by 1·7 per cent.; the second in an increase in the cultivated area by 8·14 per cent., and in the more lucrative irrigated area by 14 per cent. These two forces combined have resulted in "an extraordinary increase in the individual wealth of the agricultural community"; "the relief given to congested areas is immense"; and it is now "unlikely that famine relief will ever be required in the future, at any rate on anything like the scale of the past."
>
> *Central Provinces.*—"The economic development of the Province has certainly been the most striking feature of the decade. The rise in prices and in wages is a point that at once arrests attention. . . . In spite of prices hitherto only associated with years of famine, which would, not many years ago, have sent swarms of villagers to beg or die along the village roads and in the cities, the present is a time of the greatest prosperity for the working classes. The causes of this are simple. There has been a diminution in the supply of labour and an increase in the demand for it."

*Bombay.*—"The last year of the present decade is interesting because it illustrates the great change that has taken place in the economic condition of the masses. The rainfall is so scanty that there is no doubt that in the previous decade famine would have been declared in Gujarat and the eastern districts of the Deccan. But in fact famine was declared only in the Panch Mahals district, where the population consists largely of the primitive tribes. . . . On the whole, the decade has been a period of general prosperity, of a wider distribution of wealth, and of the expansion of industry and commerce."

*Madras.*—"It may be fairly said that the people are becoming alive to the necessity of the creation of some new measure of industrial life. There is a strongly marked tendency to industrialism on a small scale. . . . The diffusion of education, the swadeshi movement, the rise in prices, and the even greater rise in the cost of labour, have led to a better appreciation of modern methods of working. New ideas are slowly permeating the mass of the population, and the economic pressure due to improved means of communication with the rest of the world is bringing about a marked change in the method of production."

*United Provinces.*—"A very marked change is in progress in the standard of life of the upper and middle classes, which may be summarised as a gradual approximation to European standards adapted to local conditions. . . . Among the lower classes of the urban population changes are naturally less marked, but the tendency on the whole is in the same direction."

"Owing to the development of industries, much money has been thrown into the Indian market during the last decade. Both the combination and movement of indigenous capital in the country have greatly increased of late. Competition among the new firms has greatly enhanced wages; wage-earners (and some professional men too) now have a greater quantity of money in their hands. At the same time hoarding has markedly declined. Our upper and middle classes now make it a point to invest their savings, or deposit them in banks, which has the same effect. We constantly see instances of this change in our society. It is surprising how little cash even well-to-do people keep in their hands. Professional men and Government servants with large incomes keep with themselves money just sufficient for the expenses of the month, as we see in making an inventory of their property when they die suddenly. Men in service, with good bank balances, have been found to be strangely distressed when the payment of their salary was delayed by a week! At the same time that investment has replaced hoarding, owing to the spread of industrialism, capital is in quicker circulation than ever before, which has the effect of multiplying its volume. Financially India has become one country instead of being a group of mutually distrustful and isolated provinces."—("Economics of British India." By J. Sarkar.)

9. The economic changes indicated in these extracts are corroborated in many directions, and will be still more clearly revealed when the Census report for 1911 is issued. They are signs of greater economic strength; they reveal the emergence of India from the state of depressed and congested agriculture to a state where congestion has been relieved by the arrest of the growth of the population synchronising with the extension of cultivation through irrigation and the spread of industry. In short, India has passed from the stage when extensive emigration was regarded as the cure for all its economic ills, to one when every industry is short of labour. In no direction is this change more marked than in the increased resistance of the people to the shock of famine. The failure of the rains in the United Provinces in 1907 caused a shortage in the autumn harvest of 4,000,000 tons of food grains, and in the spring harvest of 3,000,000 tons; a total of 7,000,000 tons representing a value of 38,000,000*l*. Two years later there was hardly a trace of this famine left. When the rains failed in Gujarat in 1899, the suffering people had to be carted to the relief kitchens to die; a similar failure in 1911 brought no demand for State relief for the people. More significant still is the experience of the Native State of Bhavnagar.

This State suffered severely in the drought of 1899, and when the rains failed in 1911, the same administrators prepared for the relief of eighty-one thousand people for six months at a cost of Rs. 52 lakhs. In practice there was "no distress worth the name and no demand for famine labour."

10. It is sometimes assumed that these changes are the temporary product of a few good seasons. Undoubtedly the prosperity of India will wax and wane according to the character of the seasons, but the changes noted go far deeper than the sequelæ of a cycle of prosperous years. The spread of education, the extension of productive and protective irrigation, the growth of industry, and the quickened national life ensure that India is launched on a course of continuous economic development which nothing but a political cataclysm can arrest. These changed conditions warrant a much more resolute revenue policy in the future, and the free use of Indian resources in India.

In the light of these political and economic conditions, I venture to make the following suggestions on some of the specific points referred to the Commission.

## III.—*Location and Management of Indian Balances.*

11. The balances of the Government of India should be kept in India and administered by the Government of India.

12. The policy now pursued, as disclosed in the evidence before the Commission, is to hold all the surplus funds of the Government of India, over and above the prescribed working balance, at the disposal of the Secretary of State, for him to remit to London through council bills up to the maximum demands of trade. The balances thus accumulated, in excess of the Secretary of State's requirements, are devoted to the avoidance of debt. This practice is open to objection on the following grounds.

13. India has only an insignificant unproductive debt. This burden, which stood at £70 millions in 1902, had been reduced to £12½ millions in 1913; it is in process of automatic liquidation through the operation of the Railway Annuities and the avoidance of debt section of the Famine Insurance Fund.

14. India has already made large sacrifices from revenue for reproductive works. Until comparatively recently the railways were worked at an annual loss to the State, the aggregate loss under this head being variously estimated at from £50 to £36 millions. Since 1877–8 a certain sum has been set apart annually under the Famine Insurance Fund for the avoidance of debt. If that allotment had been funded, it would now amount to approximately £4 millions. India is also redeeming her railway debt through terminable annuities, and that fund amounts in round figures to £10,000,000 since 1902–3. Quite apart from the sums devoted to the avoidance of debt from revenue, India has, under these heads, devoted from £64 to £50 millions to the avoidance of debt.

15. In view of the insignificance of the unproductive debt and the arrangements which have been made for its automatic extinction, it is no longer justifiable to devote Indian surpluses to the avoidance of debt. The productive works should be financed from loans, and the Indian market freely utilised for this purpose, the surpluses automatically accruing to the provincial governments for expenditure on education and sanitation.

16. The practice of withdrawing the surplus funds of the Government from the market and locking them up in the reserve treasuries until they can be released by sales of council bills is a contributory factor in the very high rates of money which prevail in the busy season, and which constitute a severe burden on trade. It is not only that rates for money are high, but that money is on occasion unobtainable on unimpeachable security even at these rates. There is a general demand from trade and industry that these surplus balances, over and above the prescribed working balances and the Secretary of State's budgetted requirements, shall be automatically released for the benefit of trade. Further, in view of the constitution and functions of

the Imperial Legislative Council, the surpluses of the Government of India ought not to be hypothecated, either directly or indirectly, before the Budget has been passed by the Council, and then only in accordance with the principle that the claims of education and sanitation are stronger than those of reproductive works which ought to be financed out of loans.

IV.—*The Reserves.*

17. The profits on coining, and any interest that may accrue, should be devoted to building up the gold standard reserve, without limit, until such time as further experience, followed by independent inquiry, establishes beyond doubt that the reserve is sufficient to meet all reasonable requirements.

18. Until an effective gold circulation is established the gold standard reserve is the real buttress of exchange. Great Indian interests are associated with the stability of exchange; they would prefer the confidence accruing from an unimpeachable gold holding to any temporary advantage from interest, or to the diversion of any portion of the reserve to the avoidance of debt. The present limit of £25 millions is based on the experience of 1907–8. That, I suggest, is an unsafe guide; the conditions of 1907–8 were abnormal, and the next crisis, whether it be more or less severe, will be very different. Whilst recent changes have given greater economic stability to India, the volume of the token currency has increased, the foreign trade has grown; again in 1907–08 the famine area was limited, it was succeeded by good seasons, and the storm centre was not in London. The time has not arrived when we can estimate with confidence the demand which may be made on the reserve, and which Government ought to be prepared to meet immediately and in full.

19. The gold in the gold standard reserve should be held in India. The course of events has weakened public confidence in the reserve. The Fowler Committee recommended that it be held in gold; the Secretary of State decided that it should be held in Consols in London. In 1906 the Government of India decided to hold a portion of the gold standard reserve in silver; despite the strong protests of the Bengal and Bombay Chambers of Commerce, and of the late Sir Edward Law, who instituted this reserve, this practice still obtains, although under another name. In 1907 it was decided to devote half the profits on coining to railway construction, and a million sterling was allocated to this purpose before the practice was abandoned in deference to the pressure of public opinion. These changes were made, impairing the utility of the reserve for its only legitimate purpose, without any consultation with commercial interests in India. The time and method of the employment of the reserve, and the control of the reserve, are at the discretion of the Secretary of State, who does not number amongst his financial advisers at the India Office any with Indian experience. These conditions induce the demand, strongly expressed by the Bombay Chamber of Commerce in 1907, and in the Imperial Legislative Council in 1912, that a substantial portion of the reserve shall be held in gold in India.

V.—*A Gold Mint.*

20. The Indian Mints should be opened to the free and unrestricted coinage of sovereigns, the Government of India to have the right to strike any subsidiary gold coin which they may deem necessary. The main ground on which I advocate the establishment of a gold mint is that it would provide the machinery for the rapid conversion of the great stores of gold bullion held in India into currency when they came out under pressure of famine. The second ground is that, in the opinion of experienced Indian bankers, the coinage of sovereigns in India would exercise a material influence in promoting the circulation of the sovereigns actually absorbed. So far as I can ascertain, the only argument against the establishment of a gold mint in India is that it would be an unnecessary expense. India is perfectly willing to bear the expense. Neither the Government of India, nor the Indian publicists and economists who have pressed for the execution of the policy laid down when the gold standard was established, have suggested that the

cost of the Mint should be borne from any source other than the profits on coining, of which it would form but a fraction. As against this expense must be set the saving of the cost of remitting light weight sovereigns to London; this was 13,600*l.* in 1912–13.

## VI.—*The Finance Committee.*

21. The composition of the Finance Committee of the Secretary of State's Council is inconsistent with established conditions in India. Formerly Indian opinion was represented on the Committee, either by a retired officer of the Finance Department, or by an ex-official of one of the Presidency Banks. But since the retirement of Mr. Hardie and the return of Mr. J. F. Finlay to India, Indian interests have ceased to be directly represented. On the retirement of Lord Inchcape in 1911, they ceased to be indirectly represented. The Finance Committee of the India Office Council has consisted since 1911 of two London Joint Stock Bankers and one member of the Home Civil Service, none of whom has any direct knowledge of Indian conditions. The Committee so constituted exercises wide powers. The Council on whose behalf, or by whose advice, it acts over-rules the Government of India in important matters of finance, and acts not only as a financial arbiter, but almost a financial autocrat.*

22. I am of opinion that the Finance Committee of the Secretary of State's Council should be reorganised so as to provide for the representation of at least the Finance Department of the Government of India; the Presidency Banks; and Indian commerce and industry.

## VII.—*A State Bank.*

23. In the absence of any detailed scheme, it is impossible to express an opinion on the question of a State Bank. There is no strong demand for it in India. The advantages of such an institution are recognised. It would relieve the Secretary of State of a large amount of remittance and banking business which would be more correctly transacted by a Bank. It would relieve the Government of India of the management of the paper currency, and a great volume of Treasury work, which, though very efficiently done, could be still more effectively transacted by a State Bank. It would also provide the means of automatically placing the surplus funds of Government at the disposal of trade and probably increase the use of currency notes, attract depositors, and induce a reduction in the Government working balances. These advantages are so manifest that if we had a *tabula rasa*, probably there would be no strong opinion in favour of dividing India into three separate zones operated by the Presidency Banks.

24. But we have not a *tabula rasa*. On the contrary, we have a complex system on to which the State Bank would have to be grafted. Not only is India a large country; but it is one of widely diversified conditions. The commerce and industry of Calcutta are carried on under conditions totally different from those which prevail in Bombay. The Exchange Banks enter largely into the internal commerce and industry of India. Swadeshi banking has made considerable strides and has come to stay. All these interests are entitled to consideration before a State Bank comes into operation. Some are uneasy at the probable effects of the proposals which have been given currency.

25. For these reasons I suggest that if the Commission decide in principle in favour of a State Bank, the question, with any scheme which may be adumbrated, be referred to a small committee, which will take evidence in the chief cities of India, so that all interests affected may have an opportunity of expressing their opinion.

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* Lord Curzon, the House of Lords, November 1912.

# APPENDIX XXXII.

## STATEMENT OF EVIDENCE SUBMITTED BY MR. LAURENCE CURRIE, MEMBER OF THE INDIAN COUNCIL AND OF ITS FINANCE COMMITTEE.

*Balances in London.*

1. It seems certain that it will be necessary for the Secretary of State to keep large balances in London; and it is therefore important to consider how these balances should be employed. The practice, described in Mr. Badock's Memorandum,* of lending on securities to an approved list of borrowers, has proved satisfactory in the past; and I understand that no loss has ever been incurred by the Secretary of State in respect of these loans. At times, however, the balances are so large that it is impossible to find sufficient borrowers with the requisite security; and it was to meet this difficulty that it was decided to deposit with certain approved banks the money which could not be lent against securities. While I think that this was justifiable as a temporary expedient, I should not like to revert to it and still less to establish it as part of the regular practice.

2. As a general rule, it should be possible to keep the balances in London below 10,000,000*l.*, which sum can always be lent to the approved borrowers. If, owing to exceptional causes, they should rise much above this figure, I think that the Secretary of State might lend against bank bills. The Bank of England would, of course, be instructed only to take in such bills as security for the loans as they would themselves take when lending to the market. In practice, it would probably be found desirable to restrict loans against bills to the two discount companies and to two or three of the larger firms. A possible objection to lending against bills is that it might interfere with the market for Indian Railway Debentures, which are at present largely used by the discount market as security for their existing loans. I should suggest, therefore, that if it is decided to lend against bills, that not more than one-third of the total loans should be so lent.

*Balances in India.*

3. As regards lending any part of the cash balance in India, I doubt whether this would be desirable. If, however, the objections of the Government of India could be overcome, I think that a portion of the paper currency reserve might advantageously be lent against securities, as has been suggested.

*Gold Standard Reserve.*

4. I consider that the gold standard reserve should be held mainly in London, where alone it can be utilised if required.

5. I entirely agree with the policy adopted in recent years of buying short dated securities instead of permanent stocks for the gold standard reserve. I believe that it would be best to sell gradually all the irredeemable stocks, and to hold the English portion of the reserve in:—

(1) Short dated securities with not more than four years to run.
(2) Loans against securities.
(3) Gold lodged at the Bank of England.

It is unfortunate that the sale of the existing securities must entail serious loss; but it seems probable that a greater loss will be incurred by continuing to hold them.

*Council Bills.*

6. I think that the sale of Council Bills is the best and most economical method of remitting the balances of the Indian Government to London, and I cannot usefully add anything to what Mr. Abrahams has said on this subject. I agree with him that it would be unwise to restrict the sales by any of the methods suggested. Such a restriction could not, I believe, fail to hamper Indian trade, and to bring about an unnecessary export of gold from this country.

*Gold Coinage.*

7. I am not at present in favour of coining gold in India. I doubt if there is any genuine demand for it amongst the commercial community; and

* *See* Cd. 7070, page 309.

the arguments advanced in support of the proposal appear to be mainly sentimental. There is, I think, no evidence to show that the British sovereigns at present circulating in India fail to supply the necessary gold currency.

## APPENDIX XXXIII.

### Statement of Evidence on the Indian Gold Problem and the various Matters connected with Indian Currency and Finance Submitted by Mr. Dadiba Merwanjee Dalal, Senior Partner, Messrs. Merwanjee and Sons, Stock, Bullion, Exchange and Finance Brokers, Bombay.

### STATEMENTS.

I.—India and the Empire.
II.—The Circulating Currency of India.
III.—How and why India draws Gold.
IV.—India does not hoard Gold.
V.—India's Consumption of Gold for the Industrial Arts.
VI.—Consumption of Gold of Principal Countries in Industrial Arts in 1911.
VII.—India's just share of the Annual Production of Gold.
VIII.—How to reduce India's Demand for Gold.
IX.—Transportation Charges on Gold.
X.—A Gold Mint for India.
XI.—The Minting of Sovereigns in India.
XII.—Seigniorage on Coinage of Gold in India.
XIII.—The Three Government Reserves.
XIV.—Gold Standard Reserve.
XV.—"Gold Standard" not "Gold Exchange Standard."
XVI.—Paper Currency Reserve.
XVII.—Council Bills.
XVIII.—Cash Balances in London.
XIX.—Cash Balances in India.
XX.—Presidency Banks or State Bank.
XXI.—Purchases of Silver.
XXII.—Financial Organisation and Procedure of the India Office.

### I.—India and the Empire.

In the past fifteen years India has made great economic strides. The patient industry of her people, the magnitude of her resources, the developments induced by the extension of irrigation, the spread of railways and the growth of industry have made her one of the great economic forces of the world. Already she is the largest consumer of British manufactured goods, and is one of the principal suppliers of the world's demand for cotton, wheat, seeds, jute and rice. She has more recently entered the field of major industry, and Indian pig iron finds a market in the Far East and South America. The magnitude of her trade and the high prices of produce have, since the adoption of the Gold Sandard, set up a demand for the precious metals which has drawn upon her the gaze of the money markets. The problems arising from these conditions are not mere matters of accounts; they must, I submit, be considered in close relation to the economic and polictical importance of India; they must be adjusted with a full appreciation of the position of India in the Empire—a position which, as Lord Curzon has appositely said, entitles her to be given a place of pride in the Imperial partnership and to be placed at the high table in the banquet hall of the Empire States.

### II.—The Circulating Currency of India.

2. The Comptroller-General and Head Commissioner of Paper Currency in his report for 1911–12 estimates each denomination of currency in the following words:—"The latest estimate of the number of rupees in circulation

"is 180 crores and the figures for gold and currency notes respectively may "be taken to be 60 crores each." This works out into sterling as follows :—

| | | £ |
|---|---|---|
| 180 crores silver Rupees - | = | 120,000,000 |
| 60 crores worth Gold Sovereigns | = | 40,000,000 |
| 60 crores Paper Currency - | = | 40,000,000 |
| | | 200,000,000 |

3. The total floating metallic currency, according to the above estimate, is about 61,250,000 sovereigns and 1,954,000,000 silver rupees. The volume of silver rupees is enormous, and causes anxiety to the Government and to Indian economists and cambists. The problem arising from this mass of token currency does not yet present any special difficulties; but certainly calls for tactful, expert handling. It is necessary to avoid as far as possible fresh rupee coinage; and to secure the confidence of the Indian people, Currency Notes should be made bullion certificates pure and simple and the metallic reserves should be located in India. For the next ten or fifteen years, until the currency and banking arrangements are perfected, the people in some districts will have to be encouraged to use gold in circulation, in preference to rupees. The longer the whole problem is temporised with or delayed, the stronger will be the ultimate pressure on the world's supply of gold.

## III.—How and Why India Draws Gold?

4. The genius of the British has endowed India with 33,000 miles of railways, 37,000 miles of metalled roads, 59,000 miles of irrigation canals, 75,000 miles of telegraph lines and 19,000 post offices. These commercial undertakings of the Government of India are only surpassed by those of the United States and two or three of the leading European nations. With the assistance of these great public services cotton, oilseeds, rice, opium, jute, wheat, &c., produced by the 90,000,000 actual working agriculturists of India, are brought to the ports of export and converted into bills of exchange on foreign countries. As the exports of India in most years exceed the imports and the Government of India's ordinary disbursements in the London market, the ultimate balance of trade has to be settled in bullion and sovereigns. The excess of exports of merchandise over imports since the Fowler Committee reported, *i.e.*, from 1898–99 to 1912–13, amounts to 511,872,000*l.*, and gives an annual average for that period of 34,124,800*l.*

5. The Indian demand for gold will be regulated by the character of the seasons and the efficiency of the transporting agencies. Unfortunately 93 per cent. of the inhabitants of India are illiterate, and such a population cannot easily be induced to accept foreign securities, or modern agricultural and industrial equipment in adjustment of India's balance of trade.

## IV.—India does not Hoard Gold.

6. The unfounded and unjust indictment has been made against India that it hoards gold bullion and sovereigns. In the London *Daily Telegraph* of 11th July, 1913, in an article on "Gold Mint for India," it was stated :—

> "For generations beyond count it has been the custom of the Indian peasant to hoard his small profits in a metallic form. A story of sucessive avalanches of alien races, which have swept in succession out of the northern passes and founded new dynasties, has been handed down from his forbears, and habits of mistrust and insecurity, as a consequence, have been inbred, and have found vent in the custom of hoarding. The great ones of the land have had their secret stores of jewels and pits of rupees within their castle walls; the poor have been in the custom of hiding their scanty reserve of silver coin beneath their huts or boughs, or of adding a bracelet to their daughter's ankles. The very large claims that India has been making recently upon the world's supplies of gold—chiefly coined in the form of sovereigns—have drawn public attention to the fact that these imports have been made, not for currency, but for the purpose of hoarding."

7. *Amount of Gold in India.*—The published statistics of the Government of India begin from the year 1835 and according to Government tables the value in rupees of the net imports of gold into India between 1835 and 1912 was 321 crores (equivalent in sterling at the rates of exchange prevailing from time to time to, roughly, 236,000,000*l.*). For the purpose of dissecting the hoarding theory it is necessary to analyse the imports that took place before and after 15th September 1899, when sovereigns were declared legal tender.

8. *Description of Gold Imported.*—India does not import the gold bars of international commerce, which weigh 400 ozs. each and which the Bank of England is always ready to purchase at 77*s.* 9*d.* per oz. By Notification of the Government of India, No. 2662, dated 26th June 1893, the Mint Masters of Bombay and Calcutta Mints were directed to receive gold bullion at the rate of 7·53344 grains troy of fine gold for one rupee. This important notification was cancelled on 11th December 1906. This action and the absence of a Gold Mint make it impracticable for India to deal in the commercial gold bars so well-known in Europe and America. The Indian demand for gold is confined to the costly 10 oz. London manufactured bars and to sovereigns and foreign coins. The importation of foreign coins, however, is microscopical and need not be investigated. The 10 oz. gold chips that India imports are specially prepared ; they are highly polished and bear the name of the importing bank together with the stamp of the London bullion brokers, the minimum cost of these is 77*s.* 10$\frac{3}{4}$*d.* per oz. in London. These bars are not only used for industrial purposes, but were also employed until 1899 for purposes of speculation, when the price of gold as measured in rupees was constantly fluctuating. Sovereigns imported before 15th September 1899 were principally for conversion into ornaments and not for currency. The Indian people are particularly fond of shield sovereigns for melting purposes, and give higher prices for them. To procure these the Exchange Banks made special arrangements with the banks in England and in Scotland. They are now very difficult to obtain.

9. *Gold Imports prior to* 1900.—The first Lord Swaythling (then Sir Samuel Montagu, Bart.), in his evidence before the Indian Currency Committee on 12th July 1898, stated "I believe there is something like 300,000,000*l.* of gold now in hoards." I do not feel there is any appreciable amount of secreted or hidden gold in India and regard Lord Swaythling's 300,000,000*l.* as mainly conjectural. Between 1835 and 1900 (a period of 65 years) the net recorded import of gold was, approximately, 135,000,000*l.* The annual average absorption works out at 2,076,200*l.* for the arts, industries, and gold coinage of that period; this indicates only a feeble demand for a great country and does not point to any appreciable burying or secreting of gold. This gold has been scattered all over India and for practical purposes of calculation need not now be taken seriously into consideration. What remains of it after the usual wear and tear is mainly in the shape of ornaments belonging to the women of the country. All women are reluctant to part with their jewellery and the Indian women are particularly tenacious with regard to their ornaments. Terrible famines swept over Western India in 1877 and 1899; and although destitution was intense, and in some districts one quarter of the population was in receipt of Government relief, still gold did not come out for export. The following table shows the gold movements in famine years :—

*Gold Movements in Famine Years.*

| Year. | Import. | Export. | Net Import. |
|---|---|---|---|
| | £ | £ | £ |
| 1877–1878 - - | 1,052,618 | 740,532 | 312,086 |
| 1896–1897 - - | 2,994,119 | 1,466,761 | 1,527,358 |
| 1899–1900 - - | 7,632,530 | 1.338,797 | 6,293,733 |

10. Between 1890 and 1897 there were three or four important and successful "corners" in the 10 oz. gold bars in the Bombay market. Although prices touched high levels, the gold tendered on each occasion was less than half a million sterling and the cornerers made considerable

profits. This goes to show that there was no loose or buried gold about, and that the imported gold bars rapidly melt into ornaments. If there was any buried gold, it would have come promptly to the surface, and would have been tendered for the "corner" settlement and re-purchased on advantageous terms (10 to 20 per cent. profit) for the settlement of the following month.

11. In the year 1892–93 and 1894–95 the rate of exchange fell severely and gold of all descriptions come out for export; these are the only two years when the net recorded exports of gold from India were over a million sterling. It was during this period that exchange came down with a rush from 18*d.* per rupee to nearly 13*d.* per rupee. Furthermore, the price of silver, which stood for 60 years at Rs. 105, fell to nearly Rs. 85 per 100 tolas. The Indian people for the first time saw "cheap" silver, and it was to them partly a novelty to exchange dear gold for silver and silver rupees. Between 1835 and 1912 there were only three years in which the exports of gold were higher than imports, as is shown in the following table:—

*Years in which Gold Exports were higher than Imports.*

| Year. | Imported. | Exported. | Net Exports. | Rate of Exchange. | Price of Gold per Tola. | | Price of Silver per 100 Tolas. | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Highest. | Lowest. | Highest. | Lowest. |
| | £ | £ | £ | *d.* | Rs. a. p. | Rs. a. p. | Rs. a. p. | Rs. a. p. |
| 1878–1879 | 975,366 | 1,572,815 | 597,449 | 19·895 | 19 14 6 | 18 11 0 | 105 12 0 | 105 12 0 |
| 1892–1893 | 1,187,859 | 3,062,981 | 1,875,122 | 15·026 | 26 8 0 | 24 6 0 | 105 12 0 | 105 12 0 |
| 1894–1895 | 1,170,853 | 4,486,916 | 3,316,063 | 13·100 | 30 5 0 | 27 10 0 | 92 2 0 | 84 5 0 |

12. *Gold Imports between* 1900–1 *and* 1911–12:—Prominence has been given to the views expressed by Sir Edward Holden at the Manchester Statistical Society in October last and at the Annual General Meeting of the London City and Midland Bank this year. Sir Edward Holden has studied the distribution of gold in recent years and comes to certain conclusions regarding India after looking at the main outlines only of the situation. In the figures given by him at Manchester, he states that India took 100,000,000*l.* between 1900 and 1912; but he did not separate the gold bars imported for the arts and industries from the sovereigns which came out mainly to charge India's empty currency reservoir. In order correctly to examine the gold movements, I give a table showing the amount and description of gold imported and exported between 1900–1 and 1911–12:—

*Gold.*

| Year. | Imports. | | | Exports. | | |
|---|---|---|---|---|---|---|
| | Bullion. | Sovereigns. | Foreign Coin. | Bullion. | Sovereigns. | Foreign Coins. |
| | £ | £ | £ | £ | £ | £ |
| 1900–1 - | 2,349,999 | 4,489,715 | 1,092,299 | 6,685,702 | 663,781 | 21,107 |
| 1901–2 - | 1,944,710 | 3,517,331 | 76,316 | 2,464,500 | 1,761,623 | 20,473 |
| 1902–3 - | 2,808,835 | 5,812,501 | 173,576 | 2,170,823 | 765,835 | 15,210 |
| 1903–4 - | 4,664,997 | 8,656,232 | 110,684 | 2,439,982 | 4,357,749 | 13,075 |
| 1904–5 - | 5,683,423 | 8,689,961 | 167,935 | 2,334,704 | 5,717,666 | 18,359 |
| 1905–6 - | 5,695,363 | 3,994,485 | 142,800 | 2,407,500 | 7,106,139 | 13,683 |
| 1906–7 - | 6,831,342 | 5,360,917 | 163,329 | 2,012,222 | 410,017 | 29,323 |
| 1907–8 - | 7,159,246 | 6,445,833 | 230,045 | 2,200,474 | 11,883 | 44,252 |
| 1908–9 - | 4,391,566 | 1,079,149 | 132,106 | 2,233,576 | 454,181 | 11,420 |
| 1909–10 - | 7,285,323 | 9,240,964 | 161,061 | 2,192,229 | 27,927 | 14,185 |
| 1910–11 - | 9,817,801 | 8,540,318 | 236,890 | 2,206,979 | 378,048 | 24,213 |
| 1911–12 - | 8,965,867 | 18,342,266 | 354,271 | 2,253,158 | 113,880 | 122,182 |
| Total - | 67,598,472 | 84,169,672 | 3,041,282 | 31,601,849 | 21,768,729 | 347,482 |
| | £154,809,426 | | | £53,718,060 | | |
| | Net Imports £101,091,366. | | | | | |

13. This table shows that owing to the absence of a gold mint and gold refineries in India, 31,601,849*l.* gold bullion had to be exported to London for conversion into sovereigns. This gold was mainly from the Indian mines. India lost two months' interest and two sets of freight, insurance and other charges on this gold. The bullion imported was in the shape of 10 oz. polished bars and aggregates 67,598,472*l.* This is for India's demand for the arts and industries and gives an annual average for this period of 5,633,206*l.* The imports and exports of foreign coins are small items and need not be investigated. The country has imported 84,169,672*l.* sovereigns and has exported 21,768,729*l.* sovereigns and retained a balance 62,400,943*l.* The Comptroller-General's estimate (*Gazette of India*, December 21st, 1912) is that 40,000,000*l.* sovereigns are in circulation. The number of sovereigns in India in the Paper Currency Reserve on 31st March 1912 was 15,500,000 thus making a visible supply of 55,500,000. If the Comptroller-General's estimate is correct, then only 7,400,943 sovereigns were melted between 1st April 1900 and 31st March 1912 or an average annual trade consumption by Indian goldsmiths of 616,745*l.* This leads one to believe that there has been no hoarding of sovereigns since they were declared legal tender in India.

14. *Conclusions about Hoarding.*—A full examination of the gold statistics of India induces the conclusion that the vaunted wealth of Hindustan is a myth, and that there is no appreciable secreting or burying of gold. The Indian demand for sovereigns is largely for currency purposes, and such demand will continue until the currency reservoir is full, or until saturation point is reached. Mr. A. Montagu Brigstocke, Accountant-General, Bombay, after investigating the movement of sovereigns (Bombay and Karachi Circles, Paper Currency Report, 19th July 1913) says there is much positive evidence that sovereigns form an increasingly large portion of the actual currency in circulation, while the enormous increase in the receipts of gold at the treasuries, following on larger issues in payment of crops, affords unmistakable refutation of the picturesque but inaccurate statement that "the gold which is dug up in South Africa is buried in South Asia." During the critical years 1907 to 1909, the gold assets of the Government of India were drained to the extent, of some 20,000,000*l.*, and on the 31st March 1909 there was only 23,417*l.* gold in the Currency Reserves in India. The demand for gold for the industrial arts in India is in no sense abnormal; but as it has attracted attention in Europe and America, I examine it separately in the next two statements.

## V.—India's Consumption of Gold for the Industrial Arts.

15. By Hindu caste custom it is necessary for the bridegroom, or his father, to give gold and silver ornaments to the bride at the time of marriage. These ornaments are called "stree-dhan," which means the "woman's property," and are in the nature of a marriage settlement. The bride's father at the time of giving away the bride may also supply a dowry in the shape of ornaments. These settlements (in the shape of ornaments) are the absolute property of the woman, who conserves them with great care. Among Hindus certain months are considered more auspicious for marriages; at such time the demand for gold is heavy, and the Indian bullion dealers make provision for supplying the up-country demand by larger imports from London. In recent years there has also been political unrest in some parts of India; but it is difficult to gauge whether it has led to special investment in gold ornaments. Certainly, there has been no abnormal demand compared to the prosperity of the country, and it has to be kept in mind that early this year, according to the Chancellor of the British Exchequer, nearly 60,000,000*l.* gold was hoarded on the Continent owing to the Balkan disturbances. The bulk of the gold bullion that comes to India is for the industrial arts, and it is only necessary to estimate the number of sovereigns melted for the same purpose. The great bullion market of India is in Bombay, and the official records of the Bombay Currency Office show that between 1901-2 and 1912-13, *i.e.*, a period of 11 years, 1,298,500 sovereigns were taken for melting, which gives an annual average at 118,045*l.* The average for the whole of India, for the last 12 years, as derived from Government figures,

is 616,745*l.*; therefore for the year 1911 a very liberal and very generous estimate will be 2,000,000*l.* The gold bullion imported in the year 1911 was 8,943,546*l.*, and the total demand for the arts and industry of that year would, on a generous estimate, come to 10,943,546*l.* This amount appears large, but it is certainly not excessive for a population of 315,000,000. For the purpose of instituting comparisons between India's demand with that of the other countries, one has to study the figures of the world's industrial consumption of gold, and it is found that India stands a bad sixth on the *per capita* basis. Switzerland has an enormous trade demand for gold, possibly to make watch cases, and consumes per head four times more than England and France and ten times more than India. The *per capita* trade demand of France, England and America is a great deal larger than that of India. Even assuming that 200,000,000 people of India are born never to possess a gold ornament, the trade consumption of the balance of the population only approximates the demand of France or England.

## VI.—Consumption of Gold of Principal Countries in the Industrial Arts in 1911.

16. The following table, on a sterling basis, is compiled from the Washington Mint Bureau figures, and the Indian consumption is calculated by adding 2,000,000*l.* (the liberally-estimated amount of melted sovereigns) to the actual gross import of 8,943,546*l.* gold bullion for consumption in the industrial arts in 1911 :—

| Name of Country. | Gold Consumed. | Population. | Per Capita. |
|---|---|---|---|
| | £ | | £ |
| Switzerland | 1,341,989 | 3,741,971 | ·35863 |
| France | 3,596,165 | 39,601,509 | ·09080 |
| United Kingdom | 3,698,680 | 45,365,599 | ·08153 |
| United States | 6,460,218 | 91,972,266 | ·07024 |
| Germany | 3,192,372 | 64,903,423 | ·04918 |
| India | 10,943,546 | 315,132,537 | ·03472 |
| Austria-Hungary | 1,181,523 | 49,414,833 | ·02391 |
| Belgium | 143,837 | 7,516,730 | ·01913 |
| Portugal and Spain | 468,663 | 25,011,811 | ·01873 |
| Denmark | 51,370 | 2,775,076 | ·01851 |
| Italy | 616,446 | 34,686,683 | ·01777 |
| Netherlands | 104,056 | 5,945,155 | ·01750 |
| Norway | 41,096 | 2,391,782 | ·01718 |
| Sweden | 84,103 | 5,521,943 | ·01523 |
| Finland | 27,472 | 3,030,400 | ·00906 |
| Russia | 1,160,009 | 135,859,400 | ·00853 |

## VII.—India's Just Share of the Annual Production of Gold.

17. The population of the world is 1,597,404,000. One by one the economically developed countries have adopted the gold standard, and the only two nations of any importance left with a silver standard are China (population 433,553,630) and Persia (population 9,500,000) and their demands on the world's gold for arts, industries and hoarding are negligible. Practically, therefore, the whole of the 100,000,000*l.* annual gold production of the world is to be distributed amongst 1,154,350,370 inhabitants. There are no defined or measurable laws or regulations for the distribution of gold among different countries, and the only computation or adjustment that can be arrived at is on the basis of population.

18. *British Empire and Gold.*—The population of the British Empire is 418,357,157, and its share of 100,000,000*l.* annual gold supply (on the world's gold-money-using population basis) is 36,241,263*l.* The British Empire in 1911 produced 54,387,000*l.* gold. The production of the Empire does uot remain within its boundaries and to a considerable extent supplies the demand of foreign countries.

19. *Gold Share of United Kingdom.*—On the basis of the 1911 census, the United Kingdom (population 45,365,599) is entitled to 3,929,968*l.* of the annual supply of gold for the world's gold monetary systems.

20. *Gold Share of India.*—India has a population of 315,132,537 and is entitled to 27,299,556*l.* of the annual supply of gold for the world's gold monetary systems. So when India draws 20,000,000*l.* to 30,000,000*l.* gold in any year when its harvests are abundant, it takes no more than its approximate share of the annual supply. Since the Fowler Currency Committee's Report, *i.e.*, between 1898–99 and 1912–13, the net import of gold into India is 132,000,000*l.* or 9,428,571*l.* per annum.

21. There cannot be any genuine or well founded direct objection to India getting gold. Sovereigns were declared legal tender in India on 15th September 1899, and since that date the Bank of England has only increased its stock of gold by 4,000,000*l.* out of the 1,000,000,000*l.* produced in the world.

## VIII.—How to Reduce India's Demand for Gold.

22. The demand for silver for industrial arts can be stimulated and pressure on gold proportionately relaxed if the Government of India abolish in full the duty on silver and allow a proper silver market to be built up in India from which the Far East can be fed and the internal demands of the country met on a reasonable basis. Indian bullion merchants and bankers recommend people to take gold in preference to silver because of the silver import duty. Government imposed a duty of five per cent. on the imports of silver in 1893, and raised it to 4*d.* per oz. which is approximately 15 per cent. in 1910.

23. Government should establish a silver warehouse in Bombay and issue, if required, warrants for each bar of silver imported into India. The effect of this would be that the people would learn to centralise the stock of this metal and bankers and others could advance on silver warrants. This plan would also help Government to buy silver in India when required and to make advances against silver from the currency reserves.

24. The most effective way of husbanding and centralising gold is to encourage the use of Paper Currency and to promote the extension of banking and investment facilities. The Indian mind will never be fully reconciled to the notes issued by the Government Paper Currency Department, unless the whole issue is based on metallic reserves,—such reserves to be entirely kept in India and no portion transferred to London.

25. To encourage the people to make investments in International securities it is necessary to open Stock Exchanges under Government auspices in different parts of India. This would tend not only to turn a portion of the demand for gold towards securities, but also help Government to raise large loans in the Indian markets and make it more independent of the London money market.

26. One of the great needs of the country is more branch banks in the interior. While Great Britain has 8,500 banking offices, India has only a few hundred. It is of the utmost importance that, say, 500 branches of the Presidency Banks should be opened, and they should be compelled by law, until English education becomes more general, to permit the Indian people to draw and sign cheques in the vernacular languages of their districts and to grant interest on current accounts. In the *Times of India* of 18th March 1910 I wrote over my signature as under :—

> "I believe if the Government makes it worth while and insists on the Presidency Banks opening branches in every town in India having twenty thousand inhabitants, we can not only establish centres from which the currency situation can be directed, but the branch banks will form powerful schools of finance and banking for our Indian communities."

27. The stamp duty on cheques in India should be abolished. The people of India are particularly economical, and they will not draw cheques freely if the stamp is required. The recent imposition of bourse taxes checks business in securities and acts as a super-tax on brokers; these taxes should be abolished. The new half per cent. stamp duty on industrial debentures prevents the free negotiation of a type of security which the Indian public is inclined to handle somewhat freely.

28. It would be desirable to see the cheque system introduced into the inland towns of India. Unfortunately India has 294,875,811 illiterate people, and of the 18,539,538 literate inhabitants only 1,670,387 know the English language. How can such a mass of illiterate humanity draw cheques or handle currency notes with confidence? The retiring Finance Minister, Sir Guy Fleetwood Wilson, at a farewell dinner given to him in Bombay on 27th June 1913, said:—

> "What is wanted in India is light, more light, always light, and it is education alone which will give us that light.
>
> "It is to education that we must look to dispel many of the misapprehensions which go so far to create discontent in this country. Education dispelled the 'money drain theory,' and we must use it to dispel the idea that British rule has reduced India to poverty and its people to starvation. The exact opposite is the case.
>
> "India is at the present time very prosperous and its people have probably never before been so well off. The volume of our exports and imports proves it."

29. The gaze of the Bankers and Currency Experts in Europe and America should be directed to the educational problem of India. It is through education alone that the demand in India for gold ornaments can be minimised and the tension on the world's gold can be correspondingly relaxed. To make the Indian people plough the sands of the vernacular languages will be of no avail, and until a fair percentage acquire a knowledge of the English language, the country cannot have either accumulative thought or confidence in the teachings of modern economics.

## IX.—Transportation Charges on Gold.

30. The difficulties in connection with the free in-flow and out-flow of gold arise not only from the absence of a gold mint but also from the cost of ocean freight and loss of interest during transit between India and other gold countries. The London-Bombay freight is $\frac{1}{2}$ per cent., and the interest for 22 days on the ocean journey at 5 per cent. $\frac{5}{16}$ per cent. The heavy freight, the long route, and the incidental charges at present make it practically impossible temporarily to move capital from India to Europe in order to take advantage of favourable rates of interest. A letter posted from London to Calais (103 miles) costs $2\frac{1}{2}d.$, and a letter posted from London to Bombay (7,000 miles) *viâ* Calais, Brindisi, Suez and Aden, costs only 1*d.* The advantage of cheap carriage conferred on a letter posted from one point of the Empire to another should be extended to the movement of gold between England, Australia, Africa and India. It is anomalous that the ocean freight on gold bullion, which only weighs $\frac{1}{3\frac{1}{3}}$ as compared with silver, should be the same as for silver bullion. In the next mail contract, the India Office should stipulate that the cost of gold freight between London and Indian ports by mail boats should be on a reasonable freight basis to Government and the public. The India Office should also arrange for an expeditious and cheap overland gold parcel post service between England and India. The movement of gold and sovereigns in bulk by the overland route between Bombay and London under present regulations is practically barred; but if this route were opened and made commercially practicable for exporters, there would be better prospects of oscillations of gold between India and Europe. India would then be less isolated, and the transit period reduced to 13 days. There are no movements of gold between India and her immediate neighbours, for the reason that Persia, Afghanistan, Turkestan, China, Korea and Hongkong have not got gold standards. The free in-flow and out-flow of silver between India and the outside world is fettered by the silver duty.

## X.—A Gold Mint for India.

31. For 21 years the free coinage either of silver or of gold has been denied to the people of India. Such a state of affairs does not prevail in any economically-developed country in the world.

32. *Present Mints.*—Bombay and Calcutta possess mints which are said to be the largest in the world. Sir Guy Fleetwood Wilson in the Budget Speech (1913) stated that he knew of none better, and that the work they turned out was a credit to the Indian Government; in so saying he did not rely on his own judgment, but on the judgment of experts in Europe who had given him their opinion. The Calcutta Mint has cost 457,325*l.*, and the Bombay Mint 254,034*l.*

33. *Cost of Gold Mint.*—It is well known that the cost of making the necessary additions for the coinage of gold to the present equipment of the Bombay Mint would be inconsiderable. In the telegram sent by the Secretary of State to the Viceroy on 20th June 1900 it is stated that the cost of building of a new mint on the vacant ground in the north-east angle of the present Bombay Mint would be 12,933*l.*

34. *Cost of Minting Rupees.*—Lieut.-Colonel W. G. R. Cordue, R.E., Mint Master, Bombay, has been so good as to furnish me with figures showing the cost of minting rupees at the Bombay Mint. These show that the manufacturing charges, per million pieces struck, including the cost of direction, supervision, labour and stores, varies between 478*l.* and 917*l.*, according to whether coinage is heavy or low.

35. *Light Weight Sovereigns.*—In 1912–13, 2,329,000*l.* light weight sovereigns were remitted to London, and the cost of freight was 13,600*l.* If these sovereigns are brought back, then it will cost a similar amount for freight. If they were re-coined in India the cost would be small. In fact, the salaries and fixed establishment charges of the Bombay Mint for the year 1911–12 were only 14,685*l.*, and the freight item on light weight sovereigns does not look like a commercial proposition for India.

36. "*Export Corner*" *of the Bank of England.*—Lord Swaythling informed the American Monetary Commission that the Bank of England has now got what they call an "export corner"; that is, they sift out the minimum legal weight sovereigns and heap them up for the exporters. This great bullion authority further stated that if Liverpool and Manchester Banks want sovereigns they get full weight, because the freight is against sending them from the north to the Continent, and that in the north country places one sees the most beautifully bright and heavy sovereigns, which are denied to London, and the exporters cannot get them. The sovereigns that come to India are collected in London; therefore they are not full weight, and naturally soon fall light in India.

37. *Refineries.*—In connection with the new gold mint there should be complete refineries, and the charge for melting and assaying gold should not, under any circumstances, be heavier than in London. The melters who are recognised by the Bank of England charge ¼*d.* per ounce for melting, and the assay fee is 4*s.* 6*d.* for a bar of 400 ounces. The Bombay Mint should recognise American and other foreign assays in the same way as the Bank of England. Without a refinery it will not be possible to deal with Indian manufactured ornaments and the raw gold from the Indian mines.

38. *The Government to Buy and Sell Gold.*—The Indian Paper Currency Department should on day of tender issue currency notes in exchange for gold at the rate of 3*l.* 17*s.* 9*d.* per ounce standard (on the lines of the English Bank Charter Act of 1844). The Bombay Mint should receive gold for coinage at 3*l.* 17*s.* 10½*d.* per ounce standard, and deliver the coins within 15 days without any charge for assaying or coining, or for waste in coinage. From the gold held in Paper Currency Department the Government should manufacture and sell as near cost price as possible gold of various fineness as is required for ornaments by the Indian people. This will prevent the melting of coins, and will lead to the domestic consumption of the gold which is mined in India. By this means alone will Government be able to check the exact amount of gold that is used in the arts and industries, and such records will be of increasing value in years to come. It will also prevent ignorant buyers up-country from getting inferior gold made up in the Indian bazaars. The Government should also sell gold for export when convenient.

39. *Conclusions on a Gold Mint.*—For these reasons it is unjust to deny India a gold mint of its own, and that it should be made to send its gold

and its light weight sovereigns to be minted and returned from London at the cost of two heavy transportation charges and the loss of two months' interest. It is unfair to allege that the establishment of a gold mint in India is to gratify ignorant vanity or cheap ostentation. All practical and unbiased economists can come to one conclusion only, that a gold mint is a vital necessity to India. As the circulation of sovereigns is increasing, the establishment of a gold mint should be no longer delayed.

## XI.—The Minting of Sovereigns in India.

40. The Treasury Officers and bankers who signed the Currency Report of 1899 had no doubt in their minds that a branch of the Royal Mint could and would be established in India. If that Committee had had any misgiving on the subject, it would doubtless have recommended an independent gold mint and would also have prescribed an Indian gold coin. The publication of the papers regarding the establishment of a mint for the coinage of gold in India suggest many serious reflections to the mind of the Indian public, and they look with regret upon the obstructive attitude adopted by His Majesty's Treasury in London. The 315,000,000 people of India have not been granted a branch of the Royal Mint, while Western Australia (population 283,986), Canada (population 7,192,338), New South Wales (population 1,648,210), and Victoria (population 1,315,000) hold this right. This invidious distinction should not exist in India.

41. If on the restatement of the policy of the Government of India (*vide* the despatch of 16th May 1912), the British Treasury authorities remain unyielding, the only recourse for India is to coin a ten-rupee gold piece free of seigniorage and at the same time to demonetize the sovereign. The Commission should definitely settle this matter with the Treasury before publishing their report.

## XII.—Seigniorage on Coinage of Gold in India.

42. There should be no seigniorage charged on the gold coinage in India. In England there is no seigniorage. If any one takes a bar of gold to the Royal Mint in London he receives its full value in sovereigns, weight for weight, without any deduction whatsoever.

43. *Coinage and Minting Profits.*—Between 1900-1 and 1912-13 the profit on the coinage of new rupees was 21,358,880*l.* During the same period the Indian mints made a net profit of 1,720,169*l.*, after providing 5 per cent. for depreciation on plant and 3 per cent. depreciation on buildings, and allowing interest at 3½ per cent. on the cost of the land, buildings, plant, and the average silver, nickel and bronze holdings.

44. The mint and rupee coinage profit in India between 1900–1 and 1912–13 was 23,079,049*l.*, which gives an annual average of 1,923,254*l.* When there is such an enormous surplus profit on the subsidiary coinage, there should, as the Government of India recommend, be no seigniorage on the coinage of gold.

45. *Arrangements for Bombay.*—The gold offered for tender at the 1912-13 Bombay Mint should be coined and delivered within 15 days free of charge as at the London Mint. The fixed mint price of gold in England is 77*s.* 10½*d.* per ounce troy. The Bank of England is always ready to buy gold at 77*s.* 9*d.* per ounce for immediate payment. The Bank of England consequently offers 1½*d.* per ounce less than the English mint, which corresponds to the interest rate of four per cent. for 14 days on the ounce value. The Americans have the finest arrangement in the world for receiving gold, and their mints and assay offices pay the counter value of the gold in cash on the third day after the deposit of the metal. The Bombay Mint should endeavour to approach the American standard for efficiency and despatch.

## XIII.—The Three Government Reserves.

46. There are some writers on Indian currency who urge the Government to intermingle their three reserves—the Gold Standard Reserve, the Paper Currency Reserve, and the Treasury Balances—and treat them as the absolute

property of the State. Although these funds are, for currency purposes, slightly inter-connected, I am strongly of opinion that they should be separately compartmented and separately administered. The Treasury Balances being derived from revenue, loans and deposits, must be administered according to the Budget programmes. The Paper Currency Reserve is held by Government only as custodian trustee; it cannot be risked under any circumstances whatsoever, and Government must be prepared to return it to the holders of Currency Notes intact whenever demanded. The Gold Standard Reserve is a revocable trust fund created from the profit on silver coinage for the support of sterling exchange, and can be used only for this declared purpose. If a State Bank is established, these last two funds must be kept separate and distinct from the Banking Department.

## XIV.—Gold Standard Reserve.

47. The Indian Currency Committee of 1898 in their report state:—"We also recommend that any profit on the coinage of rupees should not be "credited to the revenue or held as a portion of the ordinary balance of the "Government of India, but should be kept in gold as a special reserve, "entirely apart from the Paper Currency Reserve and the ordinary Treasury "balances." (C. 9390, page 18, paragraph 60.)

48. *Essence of the Reserve.*—The essence of the Gold Standard Reserve is that it should be a reserve of liquid gold and not of gold securities. It has been truly said that, as at present constituted, this fund is no more a gold reserve than are the investments of the joint stock banks of London gold reserves.

49. *Location.*—Sir Edward Holden declares that the Indian people ought to have the right to say where the gold should be held, and he fears that if gold is held in London there will be no anxiety on the part of the English bankers to keep the gold reserves of the United Kingdom at the highest figures. As long as the British Empire exists there can never be any difficulty in transferring from India such portion of this fund as is required for the Secretary of State's payments in London.

50. *Limit of Reserve.*—If the reserves of the paper currency are made entirely metallic and consist mainly of gold, then 25,000,000*l.* gold in the Gold Standard Reserve Fund will be ample.

51. *Investment Register.*—The India Office has never published the full details of its investments. It has never stated the rate or date of purchase of its securities. The minimum of information is given to the public. The operations in connection with the investments in British Treasury Bills are kept secret.

52. A full statement of the holdings of the Gold Standard Reserve should be published every month in a return to Parliament and simultaneously in the "Gazette of India." This statement should give details of all the transactions in Stock Exchange Securities, Treasury Bills and Exchequer Bonds, if any, during the month.

53. *Silver Branch.*—The silver branch of the Gold Standard Reserve should be closed by transferring the 60,000,000 of rupees to the Paper Currency Office, and taking Consols and gold from the Paper Currency Office in exchange. The Consols so acquired should follow the destination of the present invested portion of the Gold Standard Reserve.

54. *Investments to be Liquified.*—The British Treasury Bills and Exchequer Bonds when they fall due should not be renewed; but the proceeds paid to the credit of India Office account at the Bank of England. The India Office should direct the Bank of England to sell Consols at their discretion. This would clear the Consol holding slowly without disturbing the London market. All other securities should be sold under similar discretion within a year.

## XV.—"Gold Standard" not "Gold Exchange Standard."

55. The report which Sir Robert Chalmers drafted and which Sir Henry Fowler, Mr. Robert Campbell, Sir Everard Hambro, Sir David Barbour and

others signed on 7th July 1899 is the financial Magna Charter by which a gold standard has been settled for India and subsequently confirmed by the Indian authorities. Some currency writers have endeavoured to show that the standard of India is a "gold exchange standard." Such a standard is not understood in India nor has it been authoritatively accepted and adopted as the currency policy of India. Conservative and responsible interests in India do not understand why efforts are now being made to penalise India with a make-shift make-believe standard when a reasonable effort on the part of Government would induce a full and effective gold standard and gold currency. Since 1900 about 47,000,000*l.* worth of silver has been purchased in London and coined into rupees in India; this prodigious coining of tokens has made the early adoption of a full fledged gold standard difficult. In some quarters it is believed that the saturation of the rupee coinage caused the inflation of prices; special officers of the Government of India were deputed to make inquiries and their report is to be published next year. A close study of the circulating currency of India shows that the problem of changing from rupees to sovereigns and paper money is not at present a difficult one if Government adopts steady, active measures.

## XVI.—Paper Currency Reserve.

56. In a letter to the Indian press in February 1910 I strongly advocated that the Paper Currency Notes should be bullion certificates pure and simple and that the invested reserve should be liquified. In June of the same year Mr. Hartley Withers, in an introduction to a new edition of "Bagehot's Lombard Street," says:—

> "as a matter of theory it is safe to say that a majority of well-informed City opinions is now in favour of making the Bank of England note a pure and simple bullion certificate."

57. *Investments not desirable.*—Neither rupee paper nor Consols are suitable holdings for the Paper Currency Reserves. In times of emergency large blocks of rupee paper could not be sold and the Consol market is 6,000 miles from the nearest Indian port. The conservative and timid Indian people will never freely utilise the Government Paper Currency unless all notes have a metallic backing. Professor Andreades in his "History of the Bank of England" says that a Government debt, and particularly a permanent debt, cannot afford a guarantee or a basis for the issue of notes. He adds—"If every Government debt could be used to create an equivalent sum of money, the conclusion would inevitably follow 'that the way to create money is for a government to borrow it,' and we should have far out-distanced all the Laws and Chamberlains in creation." Successive Finance Ministers have invested sums like 1,333,333*l*, or less, at a time, of this Reserve and so displaced the vital metallic reserves. This constant tinkering with the Indian Paper Currency Act indicates the absence of any settled policy or broad views in managing the paper currency of a great Empire. These frequent encroachments of securities on the Currency Reserves cannot but disturb public confidence.

58. *Convertibility.*—The trade centres in India are enormous distances apart and it is the first duty of Government to provide for the better convertibility of notes at their treasuries by maintaining fuller currency chests. In 1910, according to a Government statement, there were still sixteen treasuries where encashment of notes was generally refused, and there were fifty-four treasuries which were only "ordinarily able to cash notes on presentation". The Comptroller-General in the 1910 report frankly acknowledges that traders, knowing that it will be useless to ask for large sums in silver in exchange for notes, do not make such attempts. Furthermore, the location of a substantial portion of the gold of the Paper Currency Reserve in London undermines the convertibility of the note issue in India.

59. *Inland Transfers.*—The mechanism for the discharge of obligations at inland towns is still often crude and primitive. Bankers and traders have constantly to transport enormous amounts of metallic currency from one town to another. The wear and tear of the metal and freight are considerable. Economic unity and solidarity are wanting, because the metallic

reserves of the Paper Currency Office are insufficient. If there were no invested reserves, the Paper Currency Department could spread a network of coin reservoirs, filled and emptied according to the trade and revenue movements of the different centres. Government should undertake to supply currency at any required point for a small consideration. Every year the Currency Reports should show the number and location of treasuries, the amount of cash held therein, and the Government charge for granting transfers from one town to another.

60. *Present Investments to be cleared.*—The present Consol holding in the paper currency should be transferred to the Gold Standard Reserve. The make-believe security of Rupee Paper should be cancelled, and a corresponding metallic transfer be made from the proceeds of the investments of the Gold Standard Reserve. This action will squeeze the "water" from the Paper Currency Reserve and provide the solid metallic ground-work which should be behind every note issued by the Paper Currency Department.

61. *Indian Paper Currency Gold in London.*—The Currency Chest which was opened in London in 1905 should be closed and the gold held therein transferred to India. Indian opinion is that the 6,100,000*l.* gold belonging to the Paper Currency Reserve held in London has no mission to perform there save to underpin the weak gold foundations of the English joint-stock banks. London bankers have declared that if India's gold is held in the United Kingdom, it reduces the anxiety of the banks to keep their gold reserves at safety figure. India has to pay an annual charge to England for the keeping of this gold, and in the last budget it is recorded that the India Office paid the Bank of England the sum of 1,483*l.* 13*s.* 5*d.* for this duty.

## XVII.—Council Bills.

62. Lord Inchcape, in a letter to the London "Times" of 8th November 1912, stated that the practice of regulating the sales of Council bills by the demands of trade, and selling beyond the India Office requirements when these demands are very heavy, is one of long-standing; and that it dates back to a period beyond which the memory of the oldest Indian merchants and bankers does not extend. Government records do not show that the history of selling extra Council bills is so very ancient. The practice of selling enormous amounts of extra bills came into force after 1901 and it has played havoc with the automatic principle of the Gold Standard, which is based on the free in-flow and out-flow of sovereigns.

63. *Huge Sales of Extra Council Bills.*—Up to the year 1901 there was more or less of a struggle to sell Council bills to the required amount and the question of extra bills was not of importance. Since 1901 the India Council has revised its policy and bankers and merchants in India do not know how many Council bills will be sold. Between 1st April 1901 and 31st March 1913 over 90,000,000*l.* extra Council drafts were sold over the Budget Estimates submitted to Parliament. These supplementary bills were sold at rates which were sometimes too low. The sale of Council bills in most years could be regulated with the precision of a chronometer, but the arrangement being in manipulative hands, the interests of India have suffered considerably. This procedure has naturally caused irritation in the money market and the sale of extra bills should not be permitted.

64. *Extra Bills Lead to Over-taxation.*—In the Budget speech made in the House of Commons on 7th August 1913, the Under-Secretary of State for India said:—

> "If the House would remember that the total dead weight of India, the total debt corresponding to our National Debt, the total debt against which there is no productive work, is only 12,500,000*l.*, and that the dead-weight debt of India has been reduced by no less in the last three or four years than 13,500,000*l.*—that is, more than half—there is a great symptom of the prosperity of Indian finances."
> —(Official Report, House of Commons' Debates, Vol. LVI., page 1900.)

65. That was a diplomatic way of saying that owing to the unfavourable prospects of floating Indian loans in London, India was over-taxed in order to develop the railway and irrigation systems. India's credit on the London money market has receded, mainly owing to the mismanagement of her financial affairs by the Indian Council. In the "Ways and Means" paragraph of the 1911–12 Budget it was stated that the "ample cash balances will be drawn upon to the extent of about 7,015,400*l.*" In the same paragraph of the 1912–13 Budget it was stated by the Finance Minister "We think we can find 11,000,000*l.* out of balances." The excess of capital payments over capital receipts in 1912–13 and 1913–14 will be 21,110,900*l.* It is not fair to build railways on an enormous scale from taxation derived from the present generation for the benefit of future generations and at the sacrifice of the educational progress of the "voiceless and voteless" people of India. The power to sell extra Council bills gives the India Office opportunities to convert the revenue surplus derived from over-taxation into productive works instead of allowing it to be spent on the uplifting of depressed and backward Indian humanity. I am a believer, and a great believer, in the development of the Indian railway and irrigation systems, but it should not be at such a pace as to outrun the progress of the community in other directions.

66. *No Extra Bills.*—The Budget estimate should show under separate heads the amount of Council bill drawings for home charges for capital outlay and discharge of debt. The total sale of Council bills in any year should only be for the amount so definitely budgetted. If the Government of India in consultation with the India Office cannot produce an accurate budget in March, they should issue a supplementary budget statement in October, obtain the sanction of the legislative council in India, and further submit it to Parliament through the Secretary of State before taking fresh action. The cost of a few movements of gold would be far better incurred in Indian interests than vesting in the hands of the finance committee of the India Council the power autocratically to sell unlimited amounts of Council bills. I have already stated (in para. 30, Section IX.) that the cost of gold freight to India should be reduced.

67. *Suggestions for the Future.*—The India Council, in consultation with the Government of India, should from time to time, issue a set programme of the amount of bills to be allotted at each sale. There should be no intermediate sales of Council bills and, if any such remittances are desired, they should be effected on the basis of the Gold Note Act. As one sale per week may be a hardship, there might be two sales per week, but under no circumstances should there be an intermediate allotment under specie point. The Indian Presidency Bank Act should be so amended that the central institutions can, when their resources permit, grant clean overdrafts, for periods not exceeding a week, to recognised banks and merchants to the extent of, say, 100,000*l.* (*i.e.*, Rs. 15,000,000). Banks and merchants, if they missed the periodical Council allotments, could, if their credit was adequate, secure loans from the Presidency Banks. In emergencies, and at all times, they can take advantage of the Gold Note Act, and get immediate payment in India from the Currency Office against the deposit of sovereigns in London. It would be still better if the Secretary of State only sold telegraphic transfers and abolished the sale of bills. The present difference between bills and transfers is not strictly regulated on the basis of bank rates in India. An arrangement to sell telegraphic transfers only would produce a better remittance rate in favour of Government. Gold tendered to the Secretary of State under the Gold Note Act should be promptly sent to India on Government troopships, at the lowest possible charges, and located in the vaults of the Currency Office. To the exchange banks it is immaterial whether they effect their remittance to India through the Secretary of State, or by coupons, or stock exchange securities, or trade bills sent out for collection, or bullion, or sovereigns; their margin between buying and selling rates remains the same. If Government has a definite Council bill programme, the course of exchange will be more settled and the uncertainties and anxieties of the Indian money markets considerably reduced.

## XVIII.—Cash Balances in London.

68. In the home accounts submitted by India Office to Parliament on 2nd May 1913, the following are the particulars of the Indian Treasury Balances held in London on 31st March 1912:—

| | £ | s. | d. |
|---|---|---|---|
| Cash at the Bank of England and in hand - | 1,398,722 | 18 | 6 |
| Deposits with banks for short periods' - - | 6,865,000 | 0 | 0 |
| Short loans to approved borrowers on security - | 10,126,290 | 7 | 1 |
| Total - - | 18,390,013 | 5 | 7 |

69. The Budget estimate of 1911-12 was for a closing balance of 8,738,218 and the excess London balance was mainly due to the sale of 9,245,216*l.* extra Council bills. The premature transference of excess funds to London raised by over-taxation in India is not justifiable. If the Indian public is over-taxed, it is only fair that the excess revenue should remain in in India, with the central banks, at the disposal of trade and industry pending disbursement according to the Budget programme of the following year.

70. *Indian Office not to do General Banking Business.*—The financial duties of the India Office are to make disbursements on behalf of the Government of India and to manage the flotation of sterling loans. The India Office should not be permitted to enter into general banking business in London with the cash balances of India.

71. *Cash in London.*—In addition to the temporary possession of loan proceeds, the India Office ought not to have in hand, as a rule, more than 4,000,000*l.* of funds transferred from India by the sale of Council drafts.

72. *Monthly Statements.*—The India Office should publish every month a detailed statement of its Treasury Balances and submit it as a Return to Parliament and publish a copy in the "Gazette of India."

## XIX.—Cash Balances in India.

73. The cash balances of the Government of India are at present lodged with the Presidency Banks, the Mofussil Treasuries, the Mofussil Sub-Treasuries and the Reserve Treasuries. In the Mofussil Treasuries and Sub-Treasuries no larger balance is held than is needed for ordinary requirements and the surplus is withdrawn to the three Reserve Treasuries.

74. *Government disturbs Money Markets.*—Bagehot's advice to the Chancellor of the Exchequer who keeps his money in private vaults is "to equalise the receipt of taxation and the outgoing of expenditure; it "should be a principal care with him to make sure that more should not "be locked up at a particular moment in the Government coffers than is "usually locked up there." The dormant monies in the Indian Reserve Treasuries on 31st July 1909 were 1,477,266*l.* This idle balance was raised by Government on 31st July 1913 to 10,708,804*l.* If the Budget figures are adhered to, the Reserve Treasury balance will fall to near 3,000,000*l.* on or before 31st March 1914. The Government thus arbitrarily disturbs the level of the floating supplies of money and upsets the calculations of merchants and bankers. The number of changes in the bank rate and the range of fluctuation are large in India, because Government does not bank its surplus funds. The aggregate cash balance of the banks in India is from 10,000,000*l.* to 15,000,000*l.*, and the Indian banking system is frequently strained by the shunting of huge blocks of money by Government in and out of the market.

75. *Trade and Surplus Balances.*—The Council Bill System only directly places the balance of the Government Reserve Treasuries at the service of the export trade to the United Kingdom. It also indirectly, through London, to some extent places the balance of the Government Reserve Treasuries at the disposal of the export trade to other countries. In 1910-11 the total exports of merchandise were 7,072,581 tons, of which 1,490,037 tons were sent to the United Kingdom. The total internal trade

of India, as measured simply by the aggregate railway goods traffic, for the same year was 71,269,000 tons. The Reserve Treasury System, therefore, only intermittently feeds the demand of a forty-seventh to a tenth portion of the trade of the country, and compels the Government to ignore the demand of the general inland trade. If the surplus monies of Government were lodged with the Presidency Banks, then the whole trade of the country would be continuously served.

76. *Abolition of Reserve Treasuries Essential.*—The Presidency Banks are now in a strong position and fully entitled to keep all the surplus funds of the Government; the Reserve Treasuries should therefore be abolished. If a State Bank is to be constituted, it will take three to four years to establish; meantime the surplus Government monies should be banked free of interest with the Presidency Banks.

## XX.—Presidency Banks or State Bank.

77. In a Memorandum submitted by the India Office in October 1909 to Parliament,* it was at the outset stated that India is not a single country with a homogeneous population, and that in truth it is a congeries of countries. India is further described as containing a number of peoples, speaking many languages, holding many creeds, observing different customs and enjoying divergent degrees of civilisation.

78. *One-control System not desirable.*—I do not at present believe in a one-control and one-reserve system for such a country, and the present arrangements of three Presidency Banks should endure until English education is more general and the banking system has extended. The Continent of Europe, with the same population as India, possesses 11 principal Central Banks.

79. *Question of Head Office.*—The question of the Head Office of a State Bank is vital to Bombay and to Calcutta from their respective points of view and there is no possibility whatever of either city subordinating its interests to the other. Time may heal these differences; if so, the amalgamation of the Presidency Banks might come from within; but it should not be under outside pressure.

80. *Time not Ripe for Amalgamation.*—The present is not the right time to amalgamate the Presidency Banks, or for launching a separate State Bank. Either of these steps would cause a disturbance to the money markets of India and interfere with the solution of the currency problem. If the Presidency Banks are merged into a State Bank, the other Indian joint-stock banks are not at present strong enough to take the place of the Presidency Banks. In 10 or 15 years there will be a great advance in Indian joint-stock banking, when the Presidency Banks might conveniently merge into a Central Bank if found necessary.

## XXI.—Purchases of Silver.

81. In making the following suggestions and remarks about the purchase of silver, I do not wish to associate myself in any way with the criticism of last year's purchases. My brothers, who attend to the silver department of my firm, are of opinion that Messrs. Samuel Montagu and Co. executed the Government orders placed in their hands with tact, ability, and secrecy. Whatever remarks I make regarding the structural defects of the London silver market, as viewed from the point of India, do not refer to any particular firm or individual.

82. *London Silver Market.*—The Marquis of Crewe declared in the House of Lords on 14th November 1912:—"Then the position as to the "purchase of silver was made more difficult by the fact that there were "only four firms in the City of London who acted as bullion brokers. The "usual custom of the India Office had been to employ the Bank of England "to arrange these purchases. The Bank had commissioned two particular "firms of brokers of high standing, and intimated that if the purchases "were made through the Bank of England again they would feel bound still "to employ the same firms." All these firms referred to are financially

* Cd. 4956, paragraph 2, page 1.

very powerful and hold the greatest silver monopoly known to the world; furthermore they act not only as brokers but also as dealers and merchants. Each day they meet and jointly declare the "fixing price" of silver.

83. *Indian Silver Markets.*—Dr. Henry Deutsch in his book on "Arbitrage" (1910 edition) states:—"The most important silver market "in the world is Bombay, with which the silver market in Calcutta cannot "compete in the least." The European side of the Bombay silver market is composed of nine powerful Exchange Banks, who employ three firms of brokers. On the Indian side are the principal joint-stock banks, 150 associated shroffs or merchant bankers, 15 bullion dealers, 11 dealers in cut bars and country silver and about 1,000 jobbers and speculators, all of whom do business through some 100 Marwari brokers. The combined force of the different sections of the Bombay silver market is therefore considerable, the market is broad and natural, and there are no combinations or understandings amongst dealers or brokers. Besides Bombay, there are other silver markets in India, and there are several thousand money dealers all over the country who take a share in the distribution and operations in silver.

84. *Regular Purchases Desirable.*—The present frantic and unbusiness-like method of making intermittent purchases of silver should be abolished and the Indian Government should buy regularly in future to an extent to be defined in the Budget; if any additional silver currency is required then it should have discretion to invite supplementary tenders.

85. *How to Purchase India's Silver.*—The Government of India should direct the Mint Master of Bombay to invite tenders every fortnight for stated amounts of silver, and give the tenderers the option of delivering the bullion within 45 days from the date of the acceptance of the tender. This will place at the service of the Government of India any free silver that exists in the Bombay, Calcutta, London, New York, Paris, Amsterdam, Hamburg, Hongkong and Shanghai markets. Furthermore, it will be an equitable arrangement in which the whole world can participate. The four London bullion firms have agents and correspondents in India through whom their tenders can come in, and if they elect to open offices in Bombay they are sure to receive a most hearty welcome from all sections of the money market. The advantage of regular purchases in Bombay will be that the Indian Government will not only secure silver at a reasonable price, but also make their purchases at the average rate of the year and secure delivery at the very door of the mint.

86. *Opposition of the India Office.*—For the last 13 years the India Office has disapproved the purchase of silver in India by the Government. There is no explanation why 47,000,000*l.* were purchased exclusively in London when on several occasions large blocks could have been secured in the Indian markets.

87. *Duty on Silver.*—In the first and second paragraphs of my Statement VIII. on "How to abate India's demand for gold," I have referred to the silver duty and to the silver warehousing questions. The duty on silver is unfair and is resented by the merchants connected with the China trade as well as the bullion dealers and native bankers in India. It is my opinion that this duty should be abolished entirely, as it prevents an outflow of silver from India to the neighbouring silver centres of the Far East and gives the London silver market an unfair advantage over the Indian silver market.

## XXII.—Financial Organisation and Procedure of the India Office.

88. Lord Curzon of Kedleston, in the House of Lords on 14th November 1912, described the "undoubted feeling of uneasiness which prevailed both "in India and in England as to the present management of Indian finance" in the following words:—

> "That feeling was the almost inevitable corollary of the system of secrecy that attended the management and manipulation—he used the word in no invidious sense—of Indian finances in this country. Here the Secretary of State was the official and only guardian of the interest

of the Indian taxpayer. He could over-rule, and did over-rule, the Government of India in important matters of finance. Indeed, the India Office was not only a financial arbiter, but almost a financial autocrat, and if that was so all the greater was the necessity for treating with candour those whose interests were so completely in their hands, who were so helpless in their grasp."

89. *Future Control.*—The present arrangement should come to an end and the future financial control should be vested in a Finance Committee of six, and the Chairman of this Committee should also be a member of the India Council. Unless there are some Indians on the Committee the Indian mind will not be satisfied. The ideal composition of the Committee would be two Englishmen, two Anglo-Indians, and two Indians as under :—

(1) An influential English financier.
(2) Chairman of one of the leading London Clearing Banks.
(3) An Officer of the Finance Department of the Government of India or an Anglo-Indian Merchant.
(4) A representative of one of the Presidency Banks.
(5) An Indian banker or financier.
(6) An Indian merchant.

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## APPENDIX XXXIV.

MEMORANDUM ON THE FINANCIAL ORGANISATION AND PROCEDURE OF THE INDIA OFFICE, SUBMITTED BY MR. L. ABRAHAMS, C.B., ASSISTANT UNDER SECRETARY OF STATE FOR INDIA.

### FINANCIAL ORGANISATION.

*Secretary of State in Council.*

1. The constitution of the body statutorily described as "The Secretary of State in Council of India" is set forth in the Act for the Better Government of India (21 & 22 Vict., c. 106) and amending Acts.

Members of Council are appointed by the Secretary of State. The term of office is ten years for Members appointed before, and seven years for those appointed after, the passing of the Council of India Act, 1907 (7 Edw. 7, c. 35). An extension of tenure for five years is permissible for special reasons of public advantage. Members are removable upon an address of both Houses of Parliament.

The number of members must be not less than 10 and not more than 14. The majority must be persons who have resided in India for ten years and have been in India within five years before the date of appointment; and, except when there are nine members with this qualification, a vacancy can be filled only by the appointment of a person possessing it.

It is the duty of the Council, under the direction of the Secretary of State, to "conduct the business transacted in the United Kingdom in relation to the Government of India and the correspondence with India."

The normal procedure is to conduct business in accordance with decisions of a majority of the Council, but the Secretary of State is empowered

to overrule the Council save on certain excepted matters on which the vote of a majority of the Council is decisive. The excepted matters include :—

Any grant or appropriation of any part of the revenues of India.
The raising of loans in the United Kingdom.
The purchase and disposal of property and the making of contracts (except certain contracts which the Director-General of Stores and his Department are authorised to make).

*Finance Committee.*

2. The Finance Committee is one of the Committees of the Council of India appointed by the Secretary of State under Section 20 of the Government of India Act of 1858. The Committee usually consists of :—

1. A member or members (at present two) with experience of English finance. The presence of such a member or members has been continuous since 1880, the names and periods of membership being as follows :—Mr. B. W. Currie, of Messrs. Glyn, Mills, Currie, & Co., December 1880 to December 1895. Mr. F. C. Le Marchant, Director of the National Provincial Bank of England, February 1896 to February 1906. Sir J. L. Mackay (now Lord Inchcape), Director of the National Provincial Bank of England (formerly Chairman of the Bengal Chamber of Commerce and Member of the Legislative Council of the Governor-General of India), April 1897 to July 1911. Sir F. Schuster, Bart., Governor of the Union of London and Smith's Bank, April 1906 ; still a member. Mr. Laurence Currie, of Messrs. Glyn, Mills, Currie, & Co., July 1911 ; still a member.

Except Mr. Laurence Currie, each of these members has been for a time Chairman of the Finance Committee.

2. Members with experience of civil and military administration in India.
3. Sometimes, but not at present, a member or members with special experience gained in India, in an official or non-official capacity, of finance or commerce.

3. The Committee is appointed annually. The Chairman is chosen by the Secretary of State, not by the members. The Committee considers papers referred to it by the Secretary of State or (under authority delegated by the Secretary of State) by an Under Secretary or Assistant Under Secretary of State. The papers so referred are usually drafts of despatches, letters, telegrams, or minutes, or requests for the instructions of the Secretary of State in Council, initiated by the Head of one or other of the nine Departments of the India Office.) The normal procedure of the Committee is, after consideration of each document laid before it, to recommend that the document be approved, amended, or rejected ; but it can formulate a recommendation of its own for dealing with the matter to which the paper refers. It has long been held that under Sections 19 and 20 of the Government of India Act of 1858, the Committees of the Council of India can deal only with matters that have been referred to them by the Secretary of State or under his authority, and have no constitutional power to initiate the discussion of other matters ; but it is improbable that any case could be found in which the Secretary of State has refused to allow the consideration of any matter which the Finance Committee has spontaneously desired to take up.

*Members of the Permanent Staff of the India Office taking part in Financial Work.*

4. The following are the members of the Permanent Staff of the India Office taking part in financial work :—

Permanent Under Secretary of State.
Assistant Under Secretary of State.
Financial Secretary and his subordinates.
Public Works Secretary and his subordinates.
Accountant-General and his subordinates.
Director-General of Stores and his subordinates.

With the exception of the first-named, all enter the Office either directly after competitive examinations held by the Civil Service Commissioners or

by transfer from other Government departments. The post of Permanent Under Secretary of State has been declared to be one for which, within the spirit of Section 4 of the Superannuation Act, 1859, professional or other peculiar qualifications not ordinarily to be acquired in the Public Service are required. It may in consequence be held by a person entering the Public Service at an age exceeding the usual age and without a certificate from the Civil Service Commissioners.

*Secretary of State's Broker.*

5. The placing of India Office balances on loan and deposit and the purchase and sale of securities are done through the Secretary of State's broker, who is a member of a firm of stockbrokers and receives a commission in respect of all work for the India Office. The firm to which he belongs usually takes part in arranging the underwriting of loans issued by the India Office, when underwriting is necessary.

*Auditor of the Accounts of the Secretary of State in Council.*

6. The audit of the India Office Accounts is provided for by 21 and 22 Vict., c. 106, Section 52, printed in the Appendix to this Memorandum. The Auditor is appointed by a Warrant under the Royal Sign Manual, countersigned by the Chancellor of the Exchequer. His duties and powers are very wide. He audits the accounts of the receipt, expenditure, and disposal in Great Britain of money, stores, and property applicable for the purposes of Indian administration. Accounts, vouchers, and all other necessary documents are submitted to him, and he has power to examine in relation to accounts, receipts, disbursements, and disposal of money, stores, and property, any officer or servant of the Secretary of State in Council. His annual report is laid before Parliament with the accounts of the year to which it relates.

The Auditor and his staff, though not members of the India Office establishment, are, for the purposes of superannuation, in the same position as if they were members of that establishment (44 and 45 Vict., c. 63).

## FINANCIAL PROCEDURE.

7. The financial procedure of the India Office is shown in the following table giving particulars as to the work done, the department or departments that do it or take part in it, and the higher authorities that, in most cases, exercise supervision and assume or share responsibility. By "department" is meant one of the nine divisions to one or other of which all the permanent staff of the India Office except the Permanent Under Secretary of State and the Assistant Under Secretary of State belong. The "higher authorities" are the Secretary of State, Committees of Council, and Council (which three may be conveniently classed together as "deciding authorities"), the Permanent Under Secretary of State and Assistant Under Secretary of State (the two highest members of the permanent staff), and the Parliamentary Under Secretary of State, whose work in the India Office is similar to theirs.

| Nature of Work. | Department concerned. | Higher Authority. |
|---|---|---|
| A.—Receipts and Payments of the India Office. | Accountant-General. | The work is regulated by general or special sanctions of the Secretary of State in Council. All receipts and payments are audited by the Auditor of the Accounts of the Secretary of State in Council, appointed under the Government of India Act, 1858, section 52. |

| Nature of Work. | Department concerned. | Higher Authority. |
|---|---|---|
| B.—Placing of balances on loan or deposit. | Accountant-General instructs broker when money can be lent or deposited. Broker arranges for loans and deposits, sometimes acting in consultation with, or under instructions of, Chairman of Finance Committee. | Statements of loans granted and outstanding are submitted weekly through an Under Secretary of State or Assistant Under Secretary to the Secretary of State, Finance Committee, and Council for approval. List of approved borrowers showing limit (when one is imposed) of amount that may be lent to each is submitted quarterly for approval. Proposals for altering list of borrowers or of securities that may be accepted, or for other changes, are submitted for approval as occasion arises. |
| C.—Preparation of annual estimates of receipts and disbursements of India Office. | Accountant-General, with cooperation in some matters of Financial Secretary. | The chief estimates are submitted through Under Secretary or Assistant Under Secretary of State to Secretary of State, Finance Committee, and Council for approval. Revisions made under pressure of time are approved by an Under Secretary or Assistant Under Secretary of State. |
| D.—Preparation of annual accounts of receipts and disbursements of India Office for presentation to Parliament, and of monthly accounts for transmission to Government of India. | Accountant-General | Ordinarily done without supervision, but special points occasionally submitted as in C. The Annual Accounts are examined and certified by the Auditor of the Accounts of the Secretary of State in Council. |
| E.—Questions relating to numbers, pay, and conditions of service generally of India Office staff. | Accountant-General except when the matter is dealt with in the first instance by Under Secretary or Assistant Under Secretary of State. | Submitted as in C. |
| F.—Audit of London Accounts of Indian Railway Companies. | Accountant-General | —— |
| G.—Regulations and administration of annuity and family pension funds. | Accountant-General with cooperation in some matters of Financial Secretary. | Submitted as in C. |
| H.—Questions relating to general civil and military expenditure in India. | Head of Administrative Department concerned (Revenue, Public, Military, &c.), and Financial Secretary. | Submitted as in C, except that other Committees as well as Finance Committee are consulted. |
| I.—Questions regarding pay, pensions, leave, and conditions of service of civil and military officers in India. | As in H., with cooperation in some matters of Accountant-General. | Submitted as in H. |
| J.—Annual programme of capital expenditure on Railways and Irrigation Works. | Financial Secretary with cooperation of Public Works Secretary. | Submitted as in H |
| K.—Imposition or Remission of Taxation. | Financial Secretary and Heads of Administrative Departments concerned. | Submitted as in H |
| L.—Questions relating to General Financial Administration in India, including financial powers of Government of India and Provincial Governments. | Financial Secretary | Submitted as in H |

| Nature of Work. | Department concerned. | Higher Authority. |
|---|---|---|
| M.—Currency Policy, including Banking; Investment of Gold Standard Reserve and Paper Currency Reserve; Purchase of Silver. | Financial Secretary | Submitted as in C. |
| N.—Issue of loans and similar business. | Financial Secretary | Submitted as in C; but it is often necessary, in order to secure rapidity of action, to delegate authority to Finance Committee. |
| O.—Sale of Council Bills | Financial Secretary | Weekly Sales made under authority of certain members of Finance Committee. Action taken submitted for confirmation as in C. |
| P.—System of Accounts in England and India and of Audit in India. | Financial Secretary and Accountant-General. | Submitted as in C. |
| Q.—Legislation in United Kingdom regarding financial matters (*e.g.*, loan bills and private bill legislation concerning railway companies): preparation of material for use in Indian Budget Debate, other Parliamentary Debates, and answers to Parliamentary questions on financial matters. | Financial Secretary | Questions of legislation submitted as in C. Other work partly done without supervision, partly submitted through Under Secretary or Assistant Under Secretary of State to Secretary of State. |
| R.—Financial relations with departments of British Government, mainly War Office, Foreign Office, and Admiralty. | Financial Secretary and Head of Administrative Department concerned. In dealing with War Office and Foreign Office, the more important financial work is done by the Financial Secretary. | Submitted as in C. |
| S.—Relations with railway companies, including revision of contracts, purchase of lines, sanction to issues of capital, and concessions for new lines. | Financial Secretary and Public Works Secretary; but mainly the former on financial questions. | Submitted as in H. |
| T.—Relations with other companies, involving financial considerations. | Head of Administrative Department concerned and Financial Secretary. | Submitted as in H. |
| U.—Financial questions connected with purchase of stores. | Director-General of Stores with co-operation of Financial Secretary. | Usually submitted as in H., but in some matters supervision is entrusted to Under Secretary or Assistant Under Secretary of State, who have authority to dispose of cases. |

## APPENDIX.

### 21 & 22 *Vict.*, c. 106 (*Act for the better Government of India*), *Section* 52.

As to the Audit of Accounts in Great Britain.

It shall be lawful for Her Majesty, by Warrant under Her Royal Sign Manual, countersigned by the Chancellor of the Exchequer, to appoint from Time to Time a fit Person to be Auditor of the Accounts of the Secretary of State in Council, and to authorize such Auditor to appoint and remove from Time to Time such Assistants as may be specified in such Warrant; and every such Auditor shall hold Office during good Behaviour; and there shall

be paid to such Auditor and Assistants out of the Revenues of *India* such respective Salaries as Her Majesty, by Warrant as aforesaid countersigned as aforesaid, may direct; and such Auditor shall examine and audit the Accounts of the Receipt, Expenditure, and Disposal in *Great Britain* of all Monies, Stores, and Property applicable for the Purposes of this Act; and the Secretary of State in Council shall by the Officers and Servants of the Establishment produce and lay before such Auditor from Time to Time all such Accounts, accompanied by proper Vouchers for the Support of the same, and shall submit to his Inspection all Books, Papers, and Writings having relation thereto; and such Auditor shall have Power to examine all such Officers and Servants in *Great Britain* of the Establishment as he may see fit in relation to such Accounts, and the Receipt, Expenditure, or Disposal of such Monies, Stores, and Property, and for that Purpose, by Writing under his Hand, to summon before him any such Officer or Servant; and such Auditor shall report from Time to Time to the Secretary of State in Council his Approval or Disapproval of such Accounts, with such Remarks and Observations in relation thereto as he may think fit, specially noting any Case, if such there shall be, in which it shall appear to him that any Money arising out of the Revenues of *India* has been appropriated to other Purposes than those of the Government of *India* to which alone they are declared to be applicable; and shall specify in detail in his Reports all Sums of Money, Stores, and Property which ought to be accounted for, and are not brought into account or have not been appropriated, in conformity with the Provisions of this Act, or have been expended or disposed of without due Authority, and shall also specify any Defects, Inaccuracies, or Irregularities which may appear in such Accounts, or in the Authorities, Vouchers, or Documents having relation thereto; and all such Reports shall be laid before both Houses of Parliament by such Auditor, together with the Accounts of the Year to which the same may relate.

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# APPENDIX XXXV.

## MEMORANDUM ON THE CONSTITUTION, POWERS, AND DUTIES OF THE SECRETARY OF STATE IN COUNCIL AND HIS ESTABLISHMENT, SUBMITTED BY SIR T. W. HOLDERNESS, K.C.S.I., UNDER SECRETARY OF STATE FOR INDIA.

1. A Memorandum on the Financial Organisation of the India Office by Mr. L. Abrahams, Assistant Under Secretary of State, has been supplied to the Commission.

2. It may be useful to supplement on certain points the information there given as to the constitution of the Council, its statutory powers and its procedure in financial matters, and as to the organisation of the Council and its relations to the Secretary of State.

The Government of India Act of 1858 (21 and 22 Vict., cap. 106) established the Council of India, and fixed the number of members at fifteen. Some of the members were to be elected by the Court of Directors of the expiring East India Company, others appointed by the Crown. Nine at least of the Council first constituted were to have what may be described as an "Indian qualification," that is, they were to have resided or served in India for ten years at least, and were not to have last left India more than ten years next preceding the date of their appointment. The Act provided that on the occurrence of a vacancy thereafter, unless at least nine of the continuing members were thus qualified, the person appointed to the vacancy must have the Indian qualification. This restriction is still operative. The members were appointed for life or "during good behaviour," but were removable by the Crown upon an address of both Houses of Parliament. The salary of a Member of Council was fixed at 1,200*l.* a year. After ten years' service on the Council a member might elect to retire on a pension of 500*l.* a year.

3. In 1869 an amending Act (32 and 33 Vict. cap. 97) limited to ten years the term of office of members appointed after the date of the Act, but gave the Secretary of State a power to reappoint "for special reasons" for a further period of five years. The right to claim a retiring pension was withheld as regards all members appointed after the date of the Act.

4. In 1889 the Council of India Reduction Act (52 and 53 Vict., cap. 65) empowered the Secretary of State, "if and whenever he thinks fit and "provided that the total number of the Council be not thereby reduced "below 10," to record his intention to abstain from filling up any vacancy in the Council of India, "and such vacancy shall henceforward remain unfilled." The Act represented the view that a Council of 10 members would suffice.

5. In 1907 the Council of India Act (7 Edw. 7, cap 35) repealed the Act just cited, and enacted that "the Council of India shall consist of such "number of members, not less than ten and not more than fourteen, as the "Secretary of State may from time to time determine." This enabled the Secretary of State to work, if he thought fit, with a Council of ten, and at any future time to increase the number if he found ten insufficient. It was intended to bring one or more Indian gentlemen on to the Council, and as they would not necessarily have administrative experience a certain amount of elasticity in the numerical strength of the Council was thought desirable. The Act also fixed the salary of members appointed after its passing at 1,000*l.* a year, and the term of office at seven years. The power of re-appointment for a further term of five years was maintained. With regard to the "Indian qualification" the maximum length of absence from India at time of appointment was reduced to five years.

6. The Council at the present time consists of ten members. Of these two are London bankers. The "Indian qualification" is possessed by eight members, two of whom are Indians. Of the eight members five have had Indian administrative experience in important posts in the Civil Service; one is a distinguished general officer of the Indian Army; one has served in the Indian Political Department; and one is an authority on educational questions and ex-Principal of an important college in India.

7. The relations of the Council and the Secretary of State *inter se* are determined by the Act of 1858. The powers of the Secretary of State in respect of the Government of India, and his relations to that Government, are determined primarily by that Act, and in a minor degree by earlier and later statutes.

8. The constitution established by the Act of 1858 is thus described by Sir Courtenay Ilbert in "The Government of India":—

> "In certain matters, including the expenditure of the revenues of India, orders of the Secretary of State are required by law to obtain the concurrence of a majority of votes at a meeting of his Council, but in all other matters the Secretary of State can overrule his Council. Whenever there has been a difference of opinion in Council any member has a right to have his opinion, and the reason for it, recorded."
>
> "The Council is thus, in the main, a consultative body, without any power of initiation, and with a limited power of veto. Even on questions of expenditure, where they arise out of previous decisions of the Cabinet, as would usually be the case in matters relating to peace or war, or foreign relations, it would be very difficult for the Council to withhold their concurrrence from the Secretary of State when he acts as representative and mouthpiece of the Cabinet."
>
> "For the better transaction of business the Council is divided into committees."

9. All matters in the decision of which the concurrence of a majority of votes at a meeting of Council is required by law must of necessity be brought before a meeting of Council. Matters which fall under the category of "secret" may be disposed of by the Secretary of State without the knowledge of Council. As regards other matters, the Secretary of State decides whether they shall be

brought before a meeting of Council or "tabled" for seven days in the Council room. But he has power when "tabling" a case, to direct that for reasons of urgency the order shall issue in advance. As a rule the more important cases not falling into the "secret" category are referred by the Secretary of State to a Committee of Council. From the Committee they are returned to the Under Secretary with the Committee's recommendations or remarks. The Secretary of State (or the Under Secretary in less important cases) then decides with reference to the nature of each case whether it should stand over for the next meeting of the Council or be "tabled."

10. In addition to the matters mentioned in Mr. Abrahams' Memorandum and specified in the Act of 1858, as matters requiring the sanction of a majority of votes at a meeting of the Council, there are certain other matters for which this special sanction is required by other Acts. These are mentioned in the note appended to clause 10 of Sir Courtenay Ilbert's Digest ("The Government of India," page 150). They relate to the making of appointments to certain offices, the alteration of the salaries and allowances of certain high officials, the making of leave or furlough rules, and the like.

11. The Act of 1858 also governs the permanent establishment of the Secretary of State. Its provisions are stated in Ilbert's Digest as follow :—

"18.—(1.) His Majesty the King may, by Order in Council, fix the establishment of the Secretary of State in Council and the salaries to be paid to the persons on that establishment."

(2.) Every such order must be laid as soon as may be before both Houses of Parliament."

(3.) No addition may be made to the said establishment, nor to the salaries authorised by any such order, except by a similar Order in Council to be laid in like manner before both Houses of Parliament."

(4.) The regulations made by His Majesty for examinations, certificates, probation, or other tests of fitness in relation to appointments to junior situations in the civil service apply to such appointments on the said establishment."

(5.) Subject to the foregoing provisions of this section, the Secretary of State in Council may make all appointments to and promotions in the said establishment, and remove any officer or servant belonging to the establishment."

12. As already stated the primary source of the authority exercised by the Secretary of State over the Government of India is the Act of 1858. Section 3 of the Act in general terms invested "one of Her Majesty's Principal Secretaries of State," on behalf of the Crown, with the power formerly exercised by the Board of Control and the Court of Directors. Subsequent sections of the Act specifically confer on the Secretary of State in Council control over the expenditure of the revenues of India, both in India and elsewhere, and define his powers to dispose of monies, securities and other properties vested in the Crown for the purposes of the Government of India. Other specific powers of the Secretary of State in Council have to be collected from earlier or later Acts. For instance, in virtue of 3 and 4 Will. IV., c. 85, s. 25, the Secretary of State, subject to the provisions of the Act of 1858 determining his relations with his Council, may "superintend, "direct, and control all acts, operations, and concerns which in anywise "relate to or concern the Government or revenues of India, and all grants "of salaries, gratuities, and allowances, and other payments and charges "whatever out of the revenues of India" (Ilbert, Digest, Section 2 (2) ).

13. The financial control of the Secretary of State in Council thus extends to all acts of the Governments in India. It is unlimited, except in so far as by general or special orders he has delegated powers of sanction to Indian authorities. Large powers have so been delegated. They are collected together in various Codes, such as the Civil Service Regulations, the India Army Regulations, the State Railway Codes; and in what is called the "Audit Resolution of the Government of India," the latest edition of which is dated 15th March 1913. Expenditure proposals that are not covered by these delegated powers have to be submitted by the Government of India to

the Secretary of State in Council for his sanction; and questions inevitably arise from time to time as to the exact extent and limits of the delegated powers. Every important administrative project, it may be said, involves expenditure beyond the sanctioning authority of the Government of India, and has to be considered by the Secretary of State in Council in its financial as well as in its administrative bearings. The proposals of the Military, Public Works and Railway Departments in particular affect large sums of money. The budget estimates of the Government of India and the "ways and means" provision of the year also raise large questions of financial policy. Thus in one way or another a large amount of intricate and important financial work necessarily comes from the Indian Government to the Secretary of State in Council. For the proper disposal of this business the Secretary of State in Council requires in his advisers an intimate knowledge of the state of the finances of India, the detailed working and technicalities of its financial system, and the bearing of the particular proposals before him on the general position. He needs specialised knowledge of the same kind as that possessed by high financial authorities in the Government of India. But he also needs expert knowledge and advice respecting certain other branches of finance with which the Government of India have less to do than he and his Council. The management of the remittances between the Indian Treasury and the Secretary of State's Home account, the lending of the Secretary of State's balances, the investment of monies on account of the Gold Standard and Paper Currency Reserves, the raising of money in this country for the capital requirements of the Indian Government, the frequent transactions that arise out of his contractual relations with the Indian Railway Companies,—all this is a class of business which is either entirely or to a great extent the special business of the India Office and the Council.

14. The financial knowledge and advice thus required under both heads canbe provided either in the Council itself or in the permanent establishment of the India Office, or in both. In the Council by members having official experience of Indian finance, and by members who are in touch with banks or other business affairs in London or India. In the permanent establishment by a sufficient staff of officers suitably trained and organised.

15. Reserving for the moment the question of the constitution of the Council, which should be considered in the light of the proposed changes recently announced by the present Secretary of State, I would supplement on one point the information given in Mr. Abrahams' Memorandum regarding the permanent staff that takes part in financial work. Up to 1911 the post of Assistant Under Secretary of State and Clerk of the Council was held by officers who had had no previous training in the financial work of the India Office. Their duties mainly consisted in assisting the Permanent Under Secretary in the internal administration of the office establishment, in relieving him of routine work, and in keeping the minutes and superintending the proceedings of the Council. On Mr. Abrahams' transfer to the post from his former post of Financial Secretary, it was arranged by my predecessor with the sanction of the Secretary of State that cases coming up from the Finance, Public Works and Stores Departments and from the Accountant-General's Department should be supervised by him before they went on through the Permanent Under Secretary to the Secretary of State. The work of the Council Clerk has since been transferred to a Deputy Clerk. This distribution of duties has sensibly relieved the Under Secretary, and has proved of very great assistance to the Secretary of State and the Council. The four departments dealing with financial questions are thereby given expert guidance and supervision. It may be noted that the arrangement as yet is personal to the present Assistant Under Secretary, as the post has not been formally converted into a financial one. Were the arrangement, however, discontinued, the provision made for the proper discharge of the financial business of the India Office by the permanent staff would be less satisfactory than at present.

16. As regards the Finance Committee, the constitution of which is described in the Memorandum above referred to, it may be remarked that it is an expedient for bringing to bear on the consideration of financial matters before

they are submitted for the decision of the Secretary of State in Council the combined expert knowledge of the members composing the Committee and of the permanent officials. The actual recommendation in each case is made by the Committee only, but the officials present (the Under Secretary, Assistant Under Secretary, Financial Secretary, and Accountant-General), take part in the discussions.

17. Turning now to the constitution of the Council I am authorised to invite attention to the statement made by the present Secretary of State for India in the House of Lords on 31st July last, regarding certain changes in the composition of the Council and in its system of transacting business which he proposes to make, if and when the necessary amending legislation is obtained. The details of the scheme have not yet been definitely worked out, as they will to some extent depend on the recommendations which the Commission may make as regards financial organisation. But, broadly speaking, the intention is that the business of the several departments of the office, which at present is considered in Committees of the Council before it reaches the Council, will for the most part in future be considered by the members singly, the members being told off or "attached" to the several departments. This in its main features is apparently the system in force in the Admiralty and in the War Office. The Committee procedure would be reserved for special occasions or particular kinds of business. It is considered that this alteration in the disposal by the Council of the work of the office will make for despatch, increase the usefulness of the members of the Council as expert advisers to the Secretary of State, and will conduce to the more thorough and adequate consideration of the really important matters that come before the collective Council.

18. It is not proposed to repeal the provision of the Act of 1858 which requires that certain kinds of business shall be brought before a meeting of Council and decided by the majority of votes of the members present. The authority of the full Council in respect of such matters will not be diminished. But it may be advisable to replace Section 20, which makes it lawful for the Secretary of State to divide the Council into Committees for the more convenient transaction of business, by a clause giving the Secretary of State a more general power to make rules and orders for the more convenient transaction of business in his Council (24 and 25 Vict., c. 67, s. 8, gives the Governor-General in Council a similar power). A power of this kind would render unnecessary the retention of Sections 24 to 26 of the Act, which prescribe in great detail the procedure for "tabling" orders.

19. Under this scheme a Council of eight members will, it is considered, suffice, though probably provision will be made in the Bill for a maximum of 10 members. The great majority of the members will necessarily be men with experience in the different branches of Indian administration, and in order to secure that this experience shall be recent, the present permissible interval between leaving India and appointment to the Council will probably be reduced, while the term of office on the Council will certainly not be longer than the present statutory limit of seven years.

20. As regards the provision which should be made for the proper representation of finance in the reconstituted Council, the Secretary of State will be glad to have the advice of the Commission. It will depend, he thinks, partly on the view that the Commission may take regarding a State Bank and the possibility of thereby relieving the India Office of the semi-banking business which it at present transacts, and partly on the nature of their recommendations as regards the organisation of the permanent staff. As at present advised, the views of the Secretary of State are somewhat as follow :—

(1.) So long as the Secretary of State in Council is responsible for the management of exchange operations between India and England and of the currency, and for loaning out in the market the balances which at certain times accumulate in excess of his immediate requirements, the presence on the Council of a member actively engaged in commerce or banking in the City of London, and thereby brought daily into touch with the money market, secures to the Council first-rate information and advice regarding subjects which lie outside the usual range of business of a Government Office. Whether, if there were no City member, the Secretary of State could always

command expert help of this kind is not clear. Even if the special work at present discharged by the India Office were transferred to a State bank, there is still something to be said for having such a member to advise regarding the amount that can be borrowed each year in London for capital expenditure, the form of loans to be issued and the terms of issue, and other similar business such as that connected with the renewal of terminable obligations in which the Secretary of State in Council is primarily interested, such as guaranteed railway debenture bonds.

(2.) It has to be recognised that such a member cannot undertake the work of supervising the whole of the financial business, much of it of a purely Indian and technical character, coming before the Council. A portion only of his time is at the disposal of the Secretary of State, and he is not expected to be familiar with the details of Indian finance. The Secretary of State's scheme for reconstituting the Council and attaching individual members to particular departments will require, whether there is a "City" member on the Council or not, one member thoroughly acquainted with the Indian financial system and also with the administrative system of that country. He would be the financial member of the Council in the sense that he would supervise all the financial business coming before the Council, and advise the Secretary of State upon it.

(3.) The Secretary of State has given much consideration to the question whether a salary of 1,200*l.* a year, and a tenure of office limited in the first instance to seven years—the terms proposed for members of Council generally—may not be found to restrict unduly his choice of a finance member. The terms practically limit the field to Indian public servants who have completed, or are on the point of completing, their Indian service, and who would have their Indian pension in addition to the salary of a member of Council. The field is a considerable one. But if ever it were considered desirable to secure a younger man or a man of special qualifications outside this field, the proposed statutory restrictions on salary and term of office would undoubtedly stand in the way of his appointment. There are obvious objections to differentiation in the terms of appointment of members of the Council, rendering as they do services of the same kind to the Secretary of State. But this objection would lose its force, if in the view of the Commission radical alterations are required in the composition of the Council, with the object of improving its financial efficiency.

(4.) The solution of the question just raised may, the Secretary of State thinks, partly depend on the recommendations that the Commission may think fit to make with regard to the financial organisation of the permanent establishment of the Secretary of State. If their recommendations should be framed with a view to increase the efficiency of the permanent establishment dealing with financial business, to improve in degree and quality the control at present exercised by the higher permanent officials, and thereby to enable the latter to render greater assistance and advice to the Secretary of State in Council, there would be less occasion to create in the Council a special post in order to secure a finance member of exceptional capacity and energy. At the same time the Secretary of State does not overlook the distinction recognised by the Act of 1858 between the functions of the permanent staff and the Council, and he is fully convinced that in the reconstituted Council there should be a competent adviser on financial matters.

# APPENDIX XXXVI.

## MEMORANDUM SUBMITTED BY MR. L. R. WINDHAM FORREST, A FORMER CHAIRMAN OF THE BOMBAY CHAMBER OF COMMERCE AND OF THE BANK OF BOMBAY.

To BASIL P. BLACKETT, Esq., Secretary.

SIR,

IN response to the invitation of your Chairman to send in a short written statement, I beg to submit the following remarks :—

### *Treasury Balances.*

The amount received from profits on railways should for the present be used for the improvement of the existing main lines, a part retained in India and another part in England for the purchase of railway material. A moderate portion of the Treasury balances should be kept in India, to be lent out to the Presidency banks against securities at a fair rate of interest, say 1 per cent. to 2 per cent. below the advertised rate of the banks, for the benefit during the busy season of the inland trade, as apart from the export trade, though probably a better way can be found by the Government of India taking power to increase temporarily the holding of securities in the paper currency reserve.

At present they may hold 14 crores of securities, against their total issue of notes which now stands at about 65 crores. These might be increased for the present to a maximum of 17 crores between December and May, The banks providing the securities against advances.

In September 1911, the Finance Minister, when asked if the Government of India would lend to the money markets in India against the deposit of approved securities when the Treasury balances were high, replied in the negative. Such a declaration would not now be meekly received, and I feel sure the Indian commercial community will not rest until some alteration is made. I trust the Commission will see their way to recommend that at least 2 crores are made available to the Presidency Banks against securities during the busy season from the Treasury balances, or through the Paper Currency Department. In Canada special facilities are given to the banks to increase their note issue during the wheat export season.

But for Treasury balances not required for expenditure in India, no better method can be devised than their transference to London by sale of Council bills; for notes, silver and even gold, if required, are thus released in India to the great benefit of the export trade, and the money at the same time is placed with exceptionally strong borrowers on a great variety of securities, and often earns a rate of interest which cannot be obtained in India during the monsoon months.

Those who object to holding Treasury balances in London seem to overlook the relief given to the export trade by the sale of these Councils.

### *Excessive Balances.*

These would naturally appear to warrant a reduction of taxation, but the demands of the railways, the loss of the opium revenue, justify the cautious policy of Government. Lately a very large amount has been used for railways, but I have never understood why Lord Morley, when describing at the Mansion House the enormous amounts at his command, did not put out more in that direction, when he knew he was spending far short of the twelve million recommended by Sir James Mackay's Committee. Serious representations had to be made to Lord Crewe the following year from the various chambers of commerce.

### *State Bank.*

If there is to be one, it must be absolutely an Indian institution, and in no way under the influence of London financiers. But at present I see no necessity for it, with the Presidency Banks and the Financial and Currency Departments as they now exist. The hundreds of treasuries scattered all over India are, I think, better in the hands of Government than of a State

bank. One great objection is the difficulty, indeed the impossibility, of securing a proper board of directors. There are no financial magnates in India, and the leading merchants, whether Indian or European, cannot devote the necessary time and attention, even if they had the financial ability or experience. If Government wish to throw more work on the Presidency Banks and desire the capital to be increased, there would be no difficulty on that score, or if they wish to see another large bank established on the lines of the Presidency Banks, and set up at Delhi for the Punjab and the United Provinces, this could easily be brought about.

The Financial and Currency Departments should be more in touch with the trade and commerce of India than they are. Some of the appointments should be thrown open to men trained in the banking business. A superior additional post should be created, and the services of an Indian bank manager be secured for three to five years at a high salary. Such a post would induce some of the ablest to agree to retire a few years earlier than they would have done, and it would be a fitting close to a successful banking career.

If a State bank is established it should not be allowed to compete with the existing banks in exchange business.

*Capital Expenditure.*

This in London for railways, has been ably managed by the India Office. Complaints are made in the city of the interminable character of the Indian Sterling Loan. There is considerable scope in India for the introduction of new gilt-edged securities such as railway debentures or bonds repayable in 50 years, and in my opinion would be preferable to increasing the amount of the Rupee Loan. My suggestions on this subject are before the India Office.

*Council Bills.*

Sales in excess of the 17 to 18 millions yearly required, should be continued as long as exchange keeps near 1*s.* 4*d.* To oblige banks to send out sovereigns would be like a return to the middle ages. Sales of telegraphic transfer are of great benefit to the export trade. Only last February the Chairman of the Bombay Chamber of Commerce complained that the Secretary of State had suddenly reduced his sales from 100 lakhs to 80.

The outcry against these sales seems to me absurd. They release an enormous amount of rupees and notes for the use of the export trade, and have the same effect as if the Government of India lent out crores of rupees to the Exchange Banks.

I thoroughly approve of the sale of Council bills against rupees or notes held in the Paper Currency Office. The proceeds are kept in gold in London and earmarked, and form a first line of defence against a fall in the value of the rupee. This gold would be used before the gold standard reserve was touched.

*A Gold Mint.*

Unless the Government can arrange with the Mysore Mines to coin their gold, I see no necessity at present for one.

Gold sovereigns can be obtained from England, Egypt and Australia as cheap as, if not cheaper than, bullion from South Africa.

I see no reason why hoardings of gold in India should come to the Mint. It is very easy to sell the gold now and obtain silver and even sovereigns in exchange, and the existence of a mint would not induce holders to get rid of their hoardings if they will not do so now.

If a gold mint is decided upon, the charges, if any, should be the same as if in England, and the only gold coin be the exact equivalent of the English sovereign, but owing to the poverty of the people it is not a very suitable coin for India, and I prefer a paper currency with gold in reserve, just as it is preferred in Canada.

*Gold Standard Reserve.*

Much annoyance is felt in India over the retention of 6 crores of rupees in the reserve. Very few persons really understand why they are held there, and though it may be sometimes a convenience to Government to have a store of rupees to draw against in case of a sudden heavy demand for Council Bills, the gold standard reserve is not the proper place, and much satisfaction would be felt if these 6 crores were transferred to the paper currency reserve and exchanged for 4 millions in gold.

London is really the proper place for the gold standard reserve, but these 4 millions might be left in India. If 10 millions are, for the present, kept in gold, whether in India or in London, and the balance kept in short-dated securities, or a portion lent on such securities, I do not think many complaints would be heard. I think the securities bought with the 3 millions already gained in interest from the securities held in the reserve, should be sold and the proceeds kept in gold and earmarked. The present plan for accumulating gold is too slow. With the increasing popularity of notes, the more frequent use of cheques and gold, it is possible that the coinage of rupees may decrease, and thereby the profits be reduced, and therefore the accumulation of gold seriously delayed.

It is impossible to express any views as to the limit up to which the reserve should be accumulated, as it all depends to what extent gold is held in the paper currency reserve. Both act together for the maintenance of the value of the rupee.

*Silver.*

I think purchases should be rather more regular than intermittent, but with the greatest discretion as to when and how to buy.

*Financial Organisation and Procedure of the India Office.*

It is very difficult to say much on the delicate subject. The public never know whether any particular policy emanates from the Secretary of State, the Secretary of State in Council, or the Indian Government, and criticisms may be often levelled against the wrong quarter. I think that on the India Council there should always be a representative of the Indian mercantile or banking interests, and when possible, one of each, and when possible, the retiring Finance Minister or some official of that department. I think the Indian Government should be given a much freer hand, except in matters connected with the English finance, or where the interests of English persons or companies are concerned.

I may mention as an example that, in the case of Rupee Capital Feeder Lines concessions, if the slightest change in the terms is required owing to the particular character of the line, months are lost in referring to the India Office for sanction to the change. The Finance Department in India is referred to about almost every question, as nearly every question has to do with money in one form or another, and I do not think the Department is sufficiently manned to dispose quickly of all the subjects referred to it.

The Member of Commerce and Industry, if the office is to be continued, should have power to influence the railway and financial policy wherever it touches the trade and finance of the country. The members of your Commission who have been in India know that as at present constituted the office in question has no power.

I remain, &c.,

29, Great St. Helens, E.C. L. R. W. FORREST.

# APPENDIX XXXVII.

## Letter from the GOVERNMENT OF INDIA to SECRETARY OF STATE, No. 268, dated 25th September 1913.

MY LORD MARQUESS,

WE have recently had under our consideration the desirability, should occasion arise during the coming busy season, of making some part of our cash balances in India more readily available for the purposes of trade. The action which we have in view involves some extension of the present established practice, and we therefore desire to obtain in advance Your Lordship's approval thereto.

2. The present position may be briefly described as follows:—Under the existing Agreements with the Presidency Banks we have engaged to maintain at the Banks of Bengal, Bombay and Madras minimum balances of Rs. 35, 20 and 18 lakhs respectively, and in default to pay interest on any deficiency at the current demand rate of the Bank. In practice, however, as Your Lordship is aware, we have been accustomed to keep at the head offices of the Presidency Banks balances considerably in excess of these minima. The enclosed statement shows the actual Government deposit at each of the head offices on the last day of each month during the busy seasons of the last five years. It will be seen that during those periods we have kept, on the average, about Rs. 80 lakhs with the Bank of Bengal, between Rs. 55 and Rs. 60 lakhs with the Bank of Bombay, and about Rs. 35 lakhs with the Bank of Madras. We have also a working arrangement with the Banks of Bengal and Bombay, under which, while we do not as a rule allow the balances at their head offices to exceed 100 lakhs and 50 lakhs respectively, the Banks are liable for interest when excesses over those sums occur and objection is taken to their withdrawal. There is no definite agreement regarding the balances to be held at the Banks' branches; but, to encourage the opening of new branches, we have from time to time guaranteed a minimum balance thereat for a certain number of years. Lastly we may mention that at an interview which took place at Calcutta in December last between Sir Guy Fleetwood Wilson and the authorities of the Bank of Bengal, representations were made by the latter in regard to the Government deposits, and our Comptroller and Auditor General was subsequently authorised to exercise a more liberal discretion in this matter. We recognise in fact the advisability of giving temporary assistance from time to time, where special grounds exist, by a moderate increase of our deposits, and may have occasion to act on this view during the ensuing busy season.

3. As regards loans to the Presidency Banks, the present practice is governed by the orders contained in Lord George Hamilton's despatch No. 87—Financial, dated the 4th May 1899. In that despatch His Lordship, while evidently desiring to leave to the Government of India their traditional discretion in the management of the Treasury balances, stated that he was inclined to think that such loans should not as a rule be granted at a rate of interest below the prevailing Bank rate. The imposition of that condition thenceforth become the established practice, and it is mainly because we are convinced that its relaxation is unavoidable, if the offer of Government loans is to be of any real assistance to trade, that we are making the present reference to Your Lordship. Subsequent to the receipt of Lord George Hamilton's instructions, six loans have been made by us to the Presidency Banks, viz., two in 1901, one in 1902, one in 1905, and two in 1906, the amounts varying from Rs. 20 to Rs. 40 lakhs. For the last six years we have received no application for a loan from any of the three Banks, and this fact we attribute, not to a plentiful supply of funds throughout those years in the commercial centres of the country, but to the existence of the above-mentioned condition regarding interest. If loans are to be granted only at the current market rate, it is only natural, we think, that the Presidency Banks should find themselves in the position either of having to refuse such assistance, or of being obliged further to raise their own rate; otherwise they would obtain no remuneration for the work done and for the risk taken by them.

4. We are much impressed by the present need for offering assistance to the Presidency Banks in a form which they will find it possible to accept. As Your Lordship is no doubt aware, there is a strong feeling throughout the commercial community in India that the Government have not sufficiently recognised their obligations towards trade, especially during the annually recurring periods of monetary stringency. For some years past, during the season of busy trade, which may roughly be taken as extending from the beginning of December to well on in March, the Bank rates at Calcutta and Bombay have rarely fallen so low as 5 per cent., and have frequently remained for considerable periods at as high a figure as 8 per cent. During the last busy season the Bank rate at Bombay stood at 8 per cent. for a period of over 3 months. Such rates, it may be admitted, are considerably lower than those which sometimes obtained 15 or 16 years ago, *e.g.*, during the busy seasons of 1896–7 and 1897–8, when rates of 10 and even 12 per cent. were attained. The absence in later years of such extraordinarily high Bank rates is, of course, one of the benefits which were always anticipated from the establishment of a stable rate of exchange; but it is felt by the commercial public in India that the advantage obtained from the successful prosecution of our currency policy should have been greater, and that the Bank rates which still rule for several months whenever a favourable monsoon has occurred are considerably higher than need be the case if the Government modernised their management of their cash balances.

5. There are certain other circumstances which have recently attracted increased public attention to this question. Commercial men in India have followed very closely the discussions which have taken place in England regarding the Home transactions of the Indian Government, and there is undoubtedly a feeling that the benefit derived by the London money market from short-term loans granted from the Indian cash balances in London is one which cannot fairly be denied to the Indian market. This feeling has been accentuated by the occurrence in recent years of large revenue surpluses in India, which have placed at the temporary disposal of the Government sums considerably in excess of their immediate requirements from a Treasury point of view; and it has now taken a form in which the withdrawal of funds by Government and the seasonal recurrence of monetary stringency are being definitely associated as cause and effect. Again the circumstance that the question of the establishment of a State Bank in India is again under consideration, and is believed to be looked at with some favour by His Majesty's Government, is held by the commercial public to indicate the likelihood of a more liberal policy on these questions than has hitherto obtained. The public attitude is thus one of expectancy, and, there being at present every indication of prosperous and busy trade during the ensuing cold weather, the demand has now become insistent that some immediate action should be taken, without waiting for the Report of the Royal Commission on Indian Finance and Currency, especially in view of the period which must necessarily elapse before the Commission's recommendations can be finally dealt with.

6. We are in sympathy with the desire of the commercial community that every reasonable step should be taken to mitigate the pressure which recurs in every busy season. At the same time the complaints which are voiced in certain quarters are evidently in large measure exaggerated or based on partial misapprehension. Accordingly, before authorising or proposing any departure from existing practice, we thought it right to make such preliminary inquiries as to the situation in the different commercial centres as could be effected without encroachment on the Royal Commission's field of investigation, and in particular our Honourable Colleague, the Finance Member, when lately visiting Bombay, discussed the matter, at their invitation, with the Bombay Chamber of Commerce, as well as with other persons. Our considered conclusion is that it is desirable to take steps to counteract the special stringency which is everywhere anticipated in the coming winter, and is already foreshadowed in a jute demand of unprecedented intensity, by a temporary modification of what is at present recognised as the established policy, and that this can be done without embarrassing the Royal Commission, or forcing their hands in any way. We are of opinion, in fact, that such

evidence of a more liberal policy, so far from embarrassing or prejudicing their deliberations, will facilitate the handling of such questions when their recommendations come to be considered.

7. It is clear, however, as already indicated, that any such immediate departure from established practice must necessarily fall below the more extravagant expectations which are held in some quarters. It would be incorrect to estimate our capacity for granting loans in the coming cold weather by the present amount of our cash balances. Our budget arrangements for the current year are based on the assumption that our aggregate closing balance in Home and India will be reduced to approximately the normal minimum for that period of the year. It follows that the extent to which funds will be available for loans, or for increased deposits with the Presidency Banks, must largely depend on improvements on our budget anticipations. Such improvements, indeed, may be reasonably looked for, and, as mentioned in our telegram of the 12th instant, we at present expect an aggregate betterment in the revenue account of about Rs. 3 crores, and of about 2 crores in the non-revenue transactions. The whole of this improvement is expected in India. Accordingly, if your drawings against treasury balances do not exceed the amount provided for in the Budget, we may expect to close the financial year with a cash balance in India of nearly Rs. 24 crores as compared with Rs. 19 crores assumed in the budget. A further consideration bearing on this point is that in the closing months of the busy season our cash balances are strengthened by the incoming revenue, and attain a figure in excess of immediate requirements, which can be gradually drawn upon during the slack season. This anticipatory reserve, as we may call it, will in itself provide some margin for loans to the Banks, apart from any attained improvement on the budget expectations of the year. Accordingly, though the funds likely to be available are in fact limited, they will not, we think, be inadequate for the purpose in view. Indeed, even if our free resources were considerably larger than we expect, we should not at present contemplate the grant of loans on such a scale as to involve a larger outstanding maximum than say Rs. 4½ crores, or £3 millions at any one time.

8. A further limit may be imposed by the extent of council drawings against treasury balances to which reference has just be made. It must necessarily be our first preoccupation to secure Your Lordship's cash requirements in England and our own in India, and we readily accept it as a fundamental condition that the power to grant loans on the lines which we are about to propose should not be exercised in such a way as to involve restrictions on Your Lordship's drawings up to the full amount of the budget programme. When the remittances contemplated in the budget have been fully effected, we think that the monetary conditions and prospects in India should be definitely taken into account when the question of further drawings against our cash balances is under consideration. We propose, therefore, when this stage has been reached, to instruct our Comptroller General to regulate his monthly advices to you of funds available to meet the sale of bills with reference to such action in regard to loans as we may then be taking; and we would ask Your Lordship to communicate with us before drawing bills in excess of the sums thus intimated to you. We, on our side, should be careful to keep Your Lordship fully informed as to the loans granted from time to time. We do not comtemplate, by these undertakings, that the grant of loans should necessarily be absolutely postponed until the budget drawings of the year have been completed. As long as the demand for bills is maintained on a sufficiently large scale to keep the home treasury continuously in funds, and also to leave no doubt as to Your Lordship's capacity to sell the full required amount before the end of the year, the loan transactions proposed should not, we think, be regarded as unduly prejudicing the sale of bills. We attach great importance to the concurrent adoption of alternative methods of releasing funds for the assistance of trade in the busy season. It is felt by the commercial community in India that the present system of relying solely upon the sale of bills primarily limits the supply of funds to one class of customers and one main branch of commerce. It is urged that the Exchange Banks, who are the principal purchasers of council

bills, utilise the money so obtained mainly for the financing of the external trade of the country. The internal trade of India, which is vastly greater in amount than the external trade, is chiefly financed by the Indian Banks, ranging in importance from the three Presidency Banks to upcountry firms of shroffs and mahajans few of whom have direct access to the money markets of Europe. These agencies are consequently more solicitous for the placing of Government balances at the disposal of the market than for excess drawings of council bills.

We are not, of course, prepared to maintain the theory of an absolute distinction of functions; there must, to some extent, be overlapping activities and some fusion of resources, and the experiment which we propose to make may quite possibly prove, by its practical results, that the system of supplying funds by the sale of bills has a wider utility than these arguments concede to it. But the movement in favour of a more direct application of available Government funds to the needs of the internal trade is the outcome of a very strong and natural feeling to which we think it reasonable to defer to the moderate extent indicated in the proposals which we have now to state.

9. We ask Your Lordship for permission to indicate our readiness to offer short term loans to the Presidency Banks during the ensuing busy season, at a rate of interest which would be governed by the circumstances of each case, but would ordinarily be from 1½ per cent. to 2 per cent. below the current bank rate, on the understanding that the assistance contemplated will be strictly limited by the amount of our own available resources, by Your Lordship's own requirements, and by the necessity for securing your budget drawings. It will also be understood, as stated in paragraph 7 above, that the total amount outstanding at any time shall not exceed £3 millions. To secure the necessary freedom of action, we should lay it down that the term of the proposed loans would be for not more than a few weeks, though they would be renewable if necessary, and we should arrange that they should all be repaid by the beginning of May. Such assistance would not be given until some high bank rate such as 7 or 8 per cent. had been reached, or was about to be reached. Finally, any announcement now made on the subject would make it clear that the proposed arrangements had been authorised by Your Lordship as a special case, with reference to the coming busy season alone, and without prejudice to the future permanent policy in such matters, which will be a subject for consideration after the Royal Commission have completed their labours.

10. In submitting this proposal, we desire to emphasise the fact that we are not proposing a change of principle. The policy of granting loans in the busy season has already been definitely accepted. But the acceptance of the policy has hitherto proved almost nugatory in practice, owing to the condition imposed on the rate of interest to be charged. Our primary request is to be allowed to concede more liberal and effective terms on this point, and we might have confined our representations to this issue alone. The question has, however, been somewhat complicated by recent pronouncements of the Government of India, as for example by the reply given to the question asked by the Honourable Sir Charles Armstrong at the meeting of the Legislative Council on the 18th September 1911, and by the information submitted to Your Lordship as recently as January last in His Excellency the Viceroy's telegram of the 22nd of that month. For these reasons, and also in view of the situation created by the pending deliberations of the Royal Commission, we have thought it desirable, while urging the necessity for some immediate action, to deal with the whole question at length.

11. We have only to add that we have not overlooked the objection strongly urged in the past that the policy of placing additional resources with the Presidency Banks may ultimately be actually injurious to the interests of trade owing to the possibility of our being suddenly obliged to curtail our deposits or call in our loans. We think that, as long as the assistance which we offer is of a purely temporary nature and is not on an extravagant scale, this objection has little practical weight, particularly in the modern conditions of stable exchange. Moreover, it seems probable that

the mere announcement of our readiness to give some assistance when required may in itself produce a substantial moral effect upon market conditions: which will supplement the effect caused by the actual additional resources which the proposed loans may place temporarily at the disposal of trade.

12. We trust that Your Lordship will be prepared to accept the foregoing proposals and shall be glad to receive your decision by telegram.

We have, &c.,

(Signed) HARDINGE of PENSHURST.
O'M. CREAGH.
S. H. BUTLER.
SYED ALI IMAM.
W. H. CLARK.
R. H. CRADDOCK.
W. S. MEYER.
E. D. MACLAGAN.

GOVERNMENT OF INDIA—FINANCE DEPARTMENT.

Enclosure to Despatch No. 268 of 1913.

*Balances at the Credit of the Presidency Banks at their Head Offices.*

[In thousands of Rs.]

| — | 1908-09. | | | 1909-10. | | | 1910-11. | | | 1911-12. | | | 1912-13. | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Bengal. | Madras. | Bombay. | Bengal. | Madras. | Bombay. | Bengal. | Madras. | Bombay. | Bengal. | Madras. | Bombay. | Bengal. | Madras. | Bombay. |
| 31st Dec. - | 91,60 | 31,44 | 43,30 | 78,34 | 28,08 | 64,21 | 84,87 | 39,76 | 69,89 | 85,41 | 26,83 | 46,25 | 87,95 | 44,72 | 47,61 |
| 31st Jan. - | 82,22 | 29,63 | 42,21 | 85,51 | 39,27 | 58,08 | 85,28 | 29,55 | 59,67 | 79,31 | 30,32 | 55,03 | 86,56 | 42,87 | 65,73 |
| 28th Feb - | 77,34 | 32,85 | 37,57 | 84,35 | 26,83 | 53,84 | 92,09 | 32,12 | 51,68 | 63.74 | 33,02 | 48,05 | 80,25 | 38,99 | 84,21 |
| 31st Mar. - | 79,50 | 33,96 | 48,83 | 86,88 | 34,43 | 66,63 | 75,62 | 34,95 | 55,22 | 79.39 | 50,78 | 70,69 | 86,37 | 55,67 | 96,28 |

Telegram to VICEROY, dated 22nd October 1913.

Loans in busy season to Presidency Banks. Your letter No. 268, dated 25th ultimo. I agree to your proposals on the understanding that loans are intended to be against security of Rupee Paper, and subject to the following:—

1st. I assume that you mean to suggest in paragraph 8 merely that Council Bills and Transfers should be sold against transfers of gold to Currency Reserve in England, or against rupees in Gold Standard Reserve, when necessary to prevent your Treasury balances from falling too low, and not that the practice of selling them freely should be modified, which would involve a radical departure from existing policy on very important point now under consideration by Royal Commission. Your proposal thus interpreted is free from objection and accords with existing practice.

2nd. If possible, in addition to amount of Budget Estimate, Bills and Transfers to be met from Treasury Balances should include the sums required to meet extra capital expenditure incurred in England since Budget was framed, and sums required to pay for silver: See my telegrams to Railway Department, dated 1st August last, sanctioning transfer of capital expenditure from India to England to the amount of 750,000*l.*; to Finance Department, dated 24th ultimo, giving sanction to the regrant of lapses amounting to Rs. 25,00,000; and to Finance Department on 10th instant regarding possibility of further outlay in England. You should remember in this connection that no

reason exists why your balance on 31st March next should not be reduced below the Rs. 18,80,00,000 estimated in the Budget if loans in India repayable in May represent the difference.

3rd. I doubt whether interest on loans should be more than 1 per cent. below Bank rate, which should give a sufficient margin of profit to the banks. The lower the rate the greater the risk of Government loans leading to reductions now or in the future of rates offered to private depositors by Banks.

4th. In paragraph 9 I think that for the words "beginning of May" you should substitute "end of May." Bank rates in May are frequently as high as 7.

I presume you have no objection to the correspondence being laid before the Royal Commission. I think they ought to see it.

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## APPENDIX XXXVIII.

LETTER from the PUNJAB CHAMBER OF COMMERCE to the SECRETARY of the COMMISSION forwarding views and opinions expressed by the Chamber from its formation in 1905 to the present time on matters affecting Indian Finance and Currency.

Punjab Chamber of Commerce,
Chandni Chowk, Delhi,
10th September 1913.

SIR,

I AM directed by the Committee of the Punjab Chamber of Commerce to forward herewith a synopsis of views and opinions expressed by the Punjab Chamber of Commerce from its formation in 1905 to the present time on matters affecting Indian Finance and Currency; and have the honour to request that the same may be laid before the Royal Commission now assembled to take evidence on this subject.

I have, &c.,
J. RENTON DENNING,
Secretary.

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### 1906.

GOLD RESERVE FUND.

On the 27th December 1906 the Secretary to the Punjab Chamber of Commerce addressed the Secretary to the Government of India, Finance Department, as follows:—

Sir,—I am directed by my Committee to address you with regard to the alteration that has taken place in the constitution of the Gold Reserve Fund, the original purpose of which was to maintain the exchangeable value of the rupee and to protect it from undue and violent fluctuations.

My Committee deprecate any deviation from the original basis on which this Fund was established, and they consider that the change has introduced an element of weakness which should at once be eliminated.

My Committee heartily support the letter of 7th December 1906, addressed to you by the Bengal Chamber of Commerce on this subject.

The following is the letter alluded to in the foregoing paragraph:—

"I am directed by the Committee of the Bengal Chamber of Commerce to address you with regard to the recent change which has been made in the constitution of the Gold Reserve Fund under which its designation has been altered to the Gold Standard Reserve Fund and a portion of it is to be held in silver instead of in gold. In reply to a question asked by Sir Howard Vincent in the House of Commons on the 26th of July, the Right Honourable the Secretary of State for India said that he had approved a proposal made by the Government of India for a portion of the Gold Standard Reserve to be held in silver, and that silver to the value of 2,500,000*l.* would, in due course, be transferred to the Reserve, a sum of 1,056,000*l.* having been so far transferred."

"2. I am instructed by the Committee to express their regret that the Government of India did not see fit to make any reference to representatives of either the banking or the mercantile community before a change of such radical importance, and so intimately connected with the trade of the country, was introduced. The Committee had always understood that the Gold Reserve Fund was to be maintained in gold or in British Government Securities, readily convertible into gold, as the only sound security for the maintenance of exchange. The step now taken appears to them to be in direct contravention of the principles laid down by the Government of India when the Gold Reserve Fund was first initiated, and the Committee view with grave apprehension the possible consequences which may follow on this change of policy. Further, the Committee are of opinion that the constant changing of currency methods is greatly to be deprecated."

"3. The Committee desire to express their agreement with the views of Sir Edward Law as stated in a letter of 15th August, addressed to the "Times" in the following words:—'It must be remembered that as the 'public was officially informed, this Fund was formed solely for the purpose 'of maintaining the exchange value of the silver-token rupee coin. For 'this purpose it must consist either of gold or of readily realisable gold 'securities; a silver reserve cannot be considered as a proper guarantee 'for the maintenance of the exchange value of a silver currency. If the 'very large purchases of silver which have recently been made by the Indian 'Government were necessary it would seem that the funds should have been 'found from any other source rather than from the Gold Reserve Fund, the 'utility of which, as regards its only legitimate purpose, is endangered by 'altering its constitution.'"

"4. The Committee, in consultation with the representatives of the Exchange Banks doing business in Calcutta, have given their most careful consideration to this matter, and in view of the fact that the principles, announced at the time the Gold Reserve Fund was established, were that the Fund would serve as a guarantee for the conversion into gold if required of the rupee-token coinage, the Committee consider that the decision now arrived at to hold silver in this Fund as a Reserve for silver is not only directly opposed to the principles which actuated the Government of India in the first instance, but also is likely to prove a positive danger to the stability of exchange."

"5. I am instructed to say, in conclusion, that the Committee of the Chamber are unanimously of opinion that the Gold Reserve Fund should be, as its name implies, a Reserve in gold or readily realisable gold securities, and I am to ask that the whole matter may receive careful consideration by the Government of India."

No. 36 A, dated Calcutta, 3rd January 1907.

From the Government of India, Finance Department, to the Punjab Chamber of Commerce.

I am directed to acknowledge the receipt of your letter, dated the 27th December 1906, communicating remarks on the alteration which has taken place in the constitution of the Gold Reserve Fund (now styled the Gold Standard Reserve) and to say that it will be submitted for the consideration of the Government of India.

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1907.

No. 507 A, dated Calcutta, 26th January 1907.

From the Government of India, Finance Department, to the Punjab Chamber of Commerce.

In continuation of Mr. Howard's letter of the 3rd instant, I am to say that your letter of 27th December 1906 has been under the consideration of the Government of India. In reply I am to forward for the information

of your Committee, a copy of a communication which has this day been addressed to the Bengal Chamber of Commerce on the question of the new constitution of the Gold Standard Reserve; and to express the hope that the facts, as therein explained, will remove the apprehensions of your Committee regarding the effects of the change.

The following is the letter to which reference is made in the preceding paragraph:—

No. 561 A, dated Calcutta, 25th January 1907.

From the Government of India, Finance Department, to the Bengal Chamber of Commerce.

"I have laid before the Government of India your letter No. 2199, dated the 7th December 1906, in which the Committee of the Bengal Chamber of Commerce take exception to the arrangement by which a portion of the Gold Standard Reserve is now held in silver, and express the opinion that the reserve should be wholly in gold or readily realisable gold securities. In reply, I am to explain, for the information of the Chamber of Commerce, exactly what arrangements have been made. It will then be possible to dispel certain misconceptions which have partially obscured the facts, and to understand more clearly the objects which the Government of India had in view in establishing the silver branch of the Gold Standard Reserve."

"2. As the Chamber are aware, the demand for rupees during the last four years has been very great. Between the 1st April 1903 and the 1st April 1906, the net withdrawal of rupees from the Currency Reserve reached the enormous total of 32½ crores, while in the same period the Mints had coined 35 crores of rupees from newly purchased silver and made them over to the Treasury. The sudden demand created by heavy trade remittances, and the delays inseparable from importing and coining large masses of silver to meet them, led to the establishment of a silver reserve in 1904. This consisted, when it was completed, of a store of prepared ingots sufficient to coin 3 crores of rupees, and was kept as part of the Paper Currency Reserve. During the cold weather of 1905-6 it became necessary to coin up the whole of the ingots; and even then the rupee stock in the Currency Reserve fell to 7½ crores, with no further reserve on which Government could fall back to supplement it. The position afforded conclusive evidence that the ingot reserve was insufficient and that its presence in the Currency Reserve at a time of pressure was a danger, inasmuch as it displaced an equivalent amount of coined rupees which might be required for issue at the shortest notice. To increase the strength of the ingot reserve, which was now a proved necessity, would only increase this danger."

"3. It was decided therefore to substitute a new silver reserve, twice as large as the old ingot reserve, and to keep it outside the Paper Currency Reserve altogether. This meant an addition of 6 crores of tolas of silver to the Government's uninvested reserves, and was equivalent to tying up three millions sterling, which the Government balances could not possibly afford. It was accordingly determined, with the full approval of the Secretary of State, to build up the silver reserve from the profits on coinage, until the limit of 6 crores of rupees was reached, by arresting to that extent and until that time the investments of the coinage profits in gold securities. In other words, a silver branch was to be added to the Gold Standard Reserve, which would be available in an emergency to meet any great and sudden demand for rupees. The silver was to be held in the form of prepared blanks of discs, ready for immediate coinage; but it has since been decided to convert these into rupees. The silver branch of the Gold Standard Reserve has now mounted up to 4¾ crores of tolas or rupees and it is expected that the 6 crores limit will be reached before the end of March of 1907. Thereafter the profits on coinage will be credited to the reserve in gold as before."

"4. The procedure for employing the silver reserve, in case of its being required to supplement the Government's ordinary stock of rupees, will be as follows. The rupees withdrawn from it will be paid for in gold, either in England or India. Part of the gold will be employed in purchasing sufficient

silver to coin and restore to the reserve the number of rupees which had been taken from it; and the balance will be invested in the gold branch of the reserve. The silver branch will thus be recouped automatically."

"5. It will be seen from the above statement of facts that the Government has no intention whatever, as was suggested in the "Times," of making its current purchases of silver from the resources of the Gold Standard Reserve. No such purchase has been made, the whole of the silver having been paid for from treasury balances or from the gold in the Currency Chest. Nor has any portion of the gold accumulations of the reserve been converted into silver. The growth of the gold portion of the reserve has been checked temporarily, but it will recommence as soon as 6 crores of rupees have been placed in the silver branch, and meanwhile the interest on the gold investments is being again invested as it accrues. There has been no permanent or prolonged interference with the building up of the reserve in its original form."

"6. The Government of India readily appreciate the anxiety of the Chamber that there should be no alteration in the constitution of the reserve fund which would in any way endanger the stability of exchange. They fully concur in that opinion, and are keenly alive to the danger of shaking public confidence in the arrangements for supporting the Gold Standard but they trust that the actual facts, as now explained, will satisfy the Chamber that there is no reason for apprehension. A silver reserve is not, and never can be, any security for the maintenance of exchange; its function is entirely different. Of the two great risks which attach to the Indian currency system —a fall in exchange and a shortage of rupees—the former has not been imminent in recent years, and a powerful gold reserve (including now about 12½ millions in gold securities) is being accumulated as a guarantee against it. But the second danger is for the time being a pressing one, and the provision of an adequate safeguard against it has become a matter of first urgency. The establishment of a strong silver reserve was thus an act of common prudence; and its amalgamation with the Gold Standard Reserve was the quickest and most economical method of building it up. All that has happened to the Gold Reserve is that its growth has been temporarily retarded, but even this is now nearly at an end."

"7. I am to add that, during the last month, a temporary loan has been taken from the silver branch of the Gold Standard Reserve in order to assist the Government in meeting the very heavy issues of Telegraphic Transfers by the Secretary of State. The Government will pay interest to the reserve for this loan, which will be treated in the same way as a loan from any outside source. The transaction in no way interferes with the growth or functions of the reserve, and is only mentioned in order that the Chamber may be placed in possession of the whole facts in connection with the reserve."

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Dated the 14th February 1907.

From the Punjab Chamber of Commerce to the Government of India, Finance Department.

I am directed to thank you for your letter No. 507 A. of 26th January 1907, enclosing copy of letter to the Secretary, Bengal Chamber of Commerce, regarding the Gold Standard Reserve.

My Committee see that the object the Government had in view in establishing a silver Reserve Fund was to relieve the Government Treasury from having to lock up a large sum in silver uninterest earning which it was necessary to hold in readiness to meet trade demands for rupees, these demands spring up suddenly and it is of the greatest importance to trade, that there should be an independent and strong fund holding sufficient silver to meet them promptly.

This the new Silver Reserve Fund will accomplish, and it is now assured that the supplementing of the Currency will be at all times instantaneous and absolutely automatic.

I am therefore to say that my Committee hasten to express their hearty approval of the action Government has taken in establishing this Silver Reserve Fund, and I am to add that it is gratifying to this Chamber to know that it will continue to be the policy of the Government to build up the Gold Standard Reserve and maintain it for the purpose for which it was established.

1908.

1. The Chairman, in moving the adoption of the Committee's Report for the year 1908, said :—

* * * * *

"Government is to be congratulated on having been able through all this depression in trade to maintain exchange, and I doubt not it will be maintained till the balance of trade sets in again in favour of India but to remove a danger and all doubt in the matter the duty on imported bar silver should I think be raised to a point that would check abnormal importations of the metal which when the balance of trade is very narrow, as it is at present, must weaken exchange. A break in exchange would at the present time bring disaster to the poor, it would still further advance the cost of food to them and this they cannot stand."

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1909.

In June 1909 the Chamber addressed the Finance Minister of the Government of India as follows :—

My Committee have recently had the subject of Indian Currency and Finance under their consideration, and in the present communication I am directed to put before you for your information the views which they hold on the subject.

When the Government of India in 1893 closed the mints to the public for the coinage of silver they embarked on a Currency policy that involved the maintenance of a legal tender composed mainly of token money. Gold became the standard of value but silver remained the circulating medium, the value of the rupee to the sovereign being fixed at 15 to 1. It was realised then, as it is realised to-day, that this system of currency relied on the balance of trade remaining in favour of India, and that it urgently required a backing of gold to give it stability, accordingly a good standard reserve fund was founded. The gold for this reserve has been obtained from the profit on the coinage of silver and, up till last year there has been a steady accumulation of gold. In the last twelve months, however, the balace of trade turned against India, and for the first time Government had to draw gold from it to maintain the exchangeable value of the rupee with gold currencies.

Government succeeded in maintaining the rupee at or about the value they fixed for it, but hesitancy on their part to cope with the emergency promptly caused much concern in commercial circles, and once again it was demonstrated that a currency system to be quite sound must be absolutely automatic in its evolutions.

The fear that gold would disappear, would be carried off for hoarding purposes as fast as it was brought into circulation, my Committee believe, has kept Government from applying the automatic principle to it. The discretionary powers reserved in this respect are perhaps wise ones for the present, but with regard to silver the principle has been applied in a true spirit and this circulating medium in the form of rupees has been supplemented immediately and as trade demanded. The policy is sound and must be adhered to, but the method adopted in the supplementing is open to criticism. The abnormal demands made by trade in times of briskness have been immediately met, the money market has been saved from violent fluctuations in discounts and rates of interest, but the after effect has not been considered.

Redundancy has not been reckoned with and no provision has been made for its relief. The country has been left to work off its surplus rupees as best it could, and when this is taking place when trade is dull, there is a dislocation of the value of commodities to that of coin more or less artificial; naturally the purchasing power of the redundant coin declines. It is only when the exchangeable value of the rupee, the ratio of the rupee to the sovereign is threatened, that relief is afforded through the medium of the Gold Standard Reserve. In this lies the weakness of the course hitherto followed.

In the opinion of my Committee there is a remedy which a simple and effective method can operate.

There is in the hands of Government a great reserve of coined rupees held against note issues and in treasury balances. This reserve guarantees the paper money in circulation and the solvency of Government. It is a great reservoir of rupees. My Committee are prepared to suggest that there should be established a corresponding reservoir for gold alongside this reservoir of rupees co-operating together, the one acting on the other, that when the Secretary of State sells extra Council Bills, the amount of rupees required to discharge the bills should be taken from this reservoir of rupees and instead of buying silver with the gold received for these extra Council Bills the gold should be shipped in the shape of sovereigns to be placed in the gold reservoir to maintain the guarantee for the paper money in circulation. In times of prosperity and in times of abnormal demand for currency for trade purposes gold from Europe would push rupees into circulation and when a slackness in trade sets in the rupees would return to the reservoir and push out gold, and there could be no redundancy in the currency.

As to whether or not the absolute automatic principle can be applied in the operation, my Committee are not prepared to say, experience will speak for it, but even if Government has to stand by controlling outflow from the gold reservoir the control can be operated with discretion and in a liberal spirit to meet the necessity.

My Committee understand that in the years 1905, 1906 and 1907, as much at 62 crores of newly coined rupees were put into circulation. Had the gold that this represented (it was through the medium of extra Council Bills paid for in gold that these rupees were pushed on to the country) been shipped to India and had it been used to push out the coined rupees from the great reservoir of reserve rupees to an amount deemed safe and reasonable, the monetary system of India, my Committee believes, would not have been imperilled by the crisis of last year.

Under this system the coinage of rupees would be limited to the amount of coin actually required to make good waste and to meet the natural requirements of an expanding trade and population. The supply would be regulated automatically through the Silver Fund in the present Gold Standard Reserve. This fund would serve this purpose and also that of an "Adjuster" when it came that no more rupees could with safety be pushed out from the reservoir that held the note issue and treasury balance rupees, for it must be remembered that silver will continue to be the principal circulating medium of the country for a very long time to come, and very considerable reserves of silver coin must always be maintained in this reserve to comply with the promise to pay in rupees. There is this, however, to be said in defence of the gold. As a guarantee it is not likely to be discredited, for it can always buy at short notice as much silver as is required.

The process of building up the present gold reserve fund will under these conditions be slow, and it may be worth considering whether or not it would not be wise to impose a heavier duty than is levied now on imported silver, this duty to go to the credit of this fund in gold. There are many reasons why the duty on silver should be raised if the matter is looked at from a purely Indian point of view.

My Committee are further of opinion that there should be no limit to the accumulation of gold for the special reserve until the metal has assumed its proper function as a circulating medium in the country, and they see no reason why Government should not pursue the policy of investing the fund in interest earning securities as is done now for the reason that the fund

would naturally take its position as the second line of defence, as there would always be time to realise. The first line of defence being the gold in the great reservoir already referred to.

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1910.

The Chairman, in moving the adoption of the Committee's Report for the year 1910, said:—

"A word about a matter that is of great importance to merchants—the maintenance of a steady exchange. Since the balance of trade set in early last year in favour of India and exchange became steady in the neighbourhood of Gold Point, little or nothing has been heard of the currency question or of the Gold Standard Reserve. It is only when a warning note is sounded by our friends at Karachi that attention is turned to it and the question is asked, What is being done to accumulate gold? We have been told directly and indirectly from time to time that in consideration for the close friendship and good understanding that exists between the City and the Secretary of State the Government of India 'must hasten slowly' with the desire to obtain gold, hence the halfway house policy of investing the funds of the Gold Standard Reserve in gilt-edged securities in London. The London money market has therefore, so far as the accumulation of gold for India is concerned, to be left in the hands of the Secretary of State and his Council. But for many months now, private enterprise has been importing sovereigns at Bombay, and we have a right to ask whether or not full advantage is being taken there to secure this gold for Government. The great gold reserve that is called for, that commerce considers necessary, should undoubtedly be in the vaults that contain the metallic reserve held against the paper currency, at least two-thirds of this reserve should consist of sovereigns, and by a very simple business method their accumulation could be effected independently altogether of the London money market. So long as the balance of trade remains in favour of India it only requires the Government to instruct their Treasury officer at Bombay to be the best buyer of sovereigns in the market till the gold is obtained. The method of accumulating gold supplemented by the gold paid into the Secretary of State for extra councils over and above the amount budgetted for would in a very short space of time accomplish the object. The cost that this method of accumulating sovereigns would involve in the shape of the premium paid to the sellers of sovereigns in Bombay, and the shipping charges on the Secretary of State's gold would very properly be defrayed by the gold standard reserve, and sovereigns would go into the paper currency reserve at par, every sovereign standing for Rs. 15. This great reserve of gold, as was pointed out by your Committee two years ago, would be the first line of defence when bad times turned the balance of trade against India, and the gold standard became exposed to the attacks of a weak exchange. It is obvious that Government may just as well hold gold as silver in this metallic reserve, for the cost is the same, but the security to trade that gold affords is inestimable. The question of the moment I submit therefore is this:—Is sufficient advantage being taken of the opportunity offered by good harvests and the balance of trade at present in favour of this country to accumulate sovereigns, or is it allowed to slip past just as the gold is slipping past which is finding its way from Bombay up-country and into hands that will lock the bulk of it up and prevent its coming out to buy rupees and maintain exchange in a crisis?"

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1911.

On a representation in October 1911, from the Karachi Chamber of Commerce, that in their opinion the time had arrived for a more effective recognition of the recommendations made by Sir Henry Fowler's Committee of 1898-9 for the introduction of a gold currency as well as a

gold standard into India, than has yet been accorded by the Secretary of State :—

(1) By opening the Indian mints to the free coinage of gold.
(2) By restricting the annual drawings of the Secretary of State on the Indian Treasuries to the figure entered in his annual Budget (approximately £16,000,000).
(3) By restricting the further coinage of new rupees until the proportion of gold in the currency was found to exceed the requirements of the public.
(4) By encouraging the use of gold coins in every possible way as recommended by Sir Henry Fowler's Committee.

And reiterating the opinion conveyed to the Government of India in December 1913, that the larger portion of the Gold Standard Reserve should for the present be retained in India, in gold.

The Punjab Chamber of Commerce replied as follows :—

(*a*) The Bombay Mint should be equipped with the necessary appliances and be empowered to coin sovereigns.
(*b*) A restriction should not be placed on the drawings of the Secretary of State for the reason of the facility these drawings afford.
(*c*) Government should continue to accumulate gold for the purpose of reserves held against the Paper Currency and other Reserves in India, and suspend the coinage of new rupees until all the coined rupees at present in the reserves are put into circulation. Thereafter the coinage of rupees should be restricted to the amount actually required to make good waste in the coinage to meet the actual requirements of an expanding trade and population.
(*d*) The present currency system is admirably suited to existing conditions and Government should refrain from taking any active part in stimulating the use of any particular metal.
(*e*) A larger portion of the Gold Standard Reserve than is at present held in gold should be held in sovereigns and it will probably be found more convenient for the purpose for which the Reserve has been created to hold the greater part of this gold in London.

The Chairman in moving the adoption of the Report of the Committee for the year 1911, said :—

"A word about the currency question which has again been brought forward, and the agitation for a gold coinage for India. The public at trade centres are undoubtedly beginning to appreciate the advantages of gold for currency purposes. Sovereigns are being taken because they are found easier and safer to handle than rupees and they can be moved about for trade purposes with greater ease and security and at a less cost than silver. It has been suggested that special gold coins should be struck for India, but I think it is generally accepted that the sovereign and the half-sovereign are for obvious reasons most suitable coins. And with regard to the whole question of currency and the position generally, there is a growing feeling, I think, that if the Government will only pursue its present policy, taking advantage of the occasions when the balance of trade is in favour of India to accumulate gold and will see to the supplementing of the rupee currency as trade demands, in other words, if things are allowed to take their natural course, the course they are taking now, the currency question may be shelved."

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## 1912.

### Circulation of Sovereigns.

The following letter, No. Res. 14–3945, was on the 4th May 1912 addressed by Mr. A. Montagu Brigstocke, I.C.S., Accountant General, Punjab, to the Chamber :—

Your attention will no doubt have been attracted ere this to the Comptroller General's Report on the operations of the Paper Currency Department

for the year 1910–11, more especially to paragraphs 23–29 thereof, in which the circulation of gold is dealt with. I am anxious in my report to the Head Commissioner on the Punjab and North-West Frontier Province for the year 1911–12 to give him as much information as may be available on this important subject, which in view of the very large figures involved is comparatively even more important in the Punjab than elsewhere. I attach for your information a copy of a general letter I am issuing to Treasury officers with a view to eliciting such information as may be available as to the sources from which gold is received in the treasuries and the nature of the transactions in which it is issued. I shall deem it a great favour if you can kindly supply me with any facts or figures which may tend to throw any light on the question so far as your own transactions with the public are concerned. There is no doubt whatever that, so far as the issue of gold for the currency office at Lahore is concerned, sovereigns are becoming increasingly popular in the Punjab, whenever large cash payments have to be made. The question is what becomes of them? No doubt some are hoarded; possibly some are melted, although my information is that in the Punjab gold bars are preferred for making ornaments; does the residue remain in circulation or do the people look on it as too precious to part with? I need not remind you that on the answer to this question must (at any rate to some extent) depend the gold policy of the Government of India; since if India is really the bottomless pit in the matter of gold absorption that it is sometimes represented to be, it is clearly useless to attempt to support the stability of the rupee by unlimited issues of sovereigns. On the other hand, if the use of gold as currency among the people is really increasing, it no doubt affords an argument in favour of a still more extended use of gold by the opening of the mints to the coinage of sovereigns. The importance of this matter to the mercantile and banking community is so great that this must be my excuse for addressing you.

I shall be very greatly obliged for an early reply to this letter. Any facts or figures you may be able to give me regarding the use of silver or of notes which may bear indirectly on the question of the use of gold will also be very welcome.

The following was the Chamber's reply:—

I have the honour to acknowledge receipt of your letter, No. Res. 14–3945 of 4th May 1912 on the question of the circulation of gold as currency in the shape of sovereigns.

My Committee have carefully considered the matter and have perused with interest your letter Res. 14–G. L–11, of same date to your Treasury Officers. The Committee are not in a position to give you any figures which could throw light on what is actually taking place in connection with the sovereigns that find their way into the Punjab, but they are able to state authoritatively that sovereigns are becoming popular and that their circulation is increasing. They are accepted as legal tender in the Bazaars, and this may be attributed to the intelligence of the people and to the fact that all over the East (in China and the Straits Settlements), where the Punjabi sepoys serve in the Army and the Police, the sovereign is popular. These men remit their earnings in gold and as there is hardly a village in the Punjab that has not sent a man to this service it is not surprising that the value of the sovereign is understood.

It is difficult to say to what extent sovereigns are being hoarded, but that they are held up by the well-to-do to a very considerable amount is undoubtedly the case, and hoarding will continue among the rural population for years to come. My Committee are of opinion that Government should not rely on the sovereigns that are being absorbed by the Districts in exchange for produce coming out at any time to support the stability of the rupee.

They are further of opinion that the present currency system is admirably suited to existing conditions, and that Government should refrain from taking any active part in stimulating the use of any particular metal, leaving the supplementing of the Currency to be regulated by trade demands.

1913.

The Chairman on 4th February 1913, in moving the adoption of the Committee's Report for 1912, said :—

"The amount of gold absorbed by India in the past twelve months has alarmed the London money market. It is feared that if the absorption continues on this scale it will overpower the monetary balance which the City has hitherto been able to control through the Bank rate and a crisis will follow which will bring in a long run of dear money. What London is afraid of is the 'Lock-up,' and the alarm is natural and timely, for it is to be realised that the gold that comes to India comes to stay, there is no Bank rate that London can put up that will attract it back to the City when it is wanted there. Gold will only return under the pressure of bad trade in India, and then it will be taken from the Government reserves to maintain exchange. The people will not part with what they hold of it except under the stress of famine, and only a small percentage of what is in circulation when a crisis comes can be relied on to go back to the treasuries. That is why the warning from the bankers of London should be listened to, why the Government should for the present at least 'hasten slowly' in passing sovereigns into circulation. The control is in a great measure in their hands, it only requires that the Secretary of State shall be at all times the best seller on India and always selling at a fraction below gold point. It is of course desirable that India should have gold circulating freely in the currency and this will no doubt ultimately come, but it would be disastrous in the highest degree to the best interests of India to go on accumulating gold for this purpose reckless of what the consequences may be to the London money market.

"With regard to the question of a special gold coin for India you will see from the report before you that your Committee expressed the opinion to Government that the sovereign and half-sovereign should be allowed to remain the coins of the gold currency and there is no necessity for a smaller gold coin than the half-sovereign. That opinion I endorse."

## APPENDIX XXXIX.

LETTER from SIR SASSOON DAVID, BART., Millowner, Bombay, to the SECRETARY of the COMMISSION, forwarding a Statement of his Views on the Questions referred to the Commission.

SIR, Bombay, 18th July, 1913.

1. IN response to your invitation conveyed to me by the Government of India in their telegram of 5th June, 1913, I have the honour to forward herewith my statement of evidence, in brief, on the points into which your Commission is now enquiring.

2. *General Cash Balances.*—I consider that out of the general balances of the Government of India a maximum balance of five to seven millions sterling should be kept with the Secretary of State, and the remainder should be located in India. Out of the London balance two millions, at least, should be kept in current account with the Bank of England, and the remainder should be given out for short periods on approved securities, preferably to the Indian Exchange Banks. I think that the present practice of maintaining four to five crores of rupees out of the balances in India with the Presidency Banks free of interest should be continued, as a return for services rendered. Out of the balances remaining in the hands of Government, 7½ crores of rupees (*i.e.* 5,000,000*l.*) should be kept in the treasuries, and any excess should be made available as loans to the public against approved securities in sums of 5 lakhs of rupees and over when the Presidency Bank rate touches 5 per cent. and over, to facilitate the requirements of trade. The Government should only loan out the surplus balances at times when the internal and external affairs of India are normal.

3. *Council Bills.*—I am of opinion that only the budgetted amount of Council Bills should be sold every year, and there should be no extra allotments, but if necessary, let there be bi-weekly sales instead of weekly ones, so that the ultimate balance of trade in favour of India would be automatically settled in gold. For several reasons it would be desirable that India should have all her balance of trade kept in gold in India. One of these reasons is, that India would have gold enough to send out to London whenever there is any difficulty in selling Council Bills. As regards the purchases of silver, it is in my opinion very desirable that the Government of India budget should provide every year for an approximate amount required for currency purposes to be made every month by public tender in London. For purposes of making payment for this silver the amount of the annual Council drawing should be increased and form part of the budgeted amount. The Government should declare in advance, as at present, in what proportion per week Council Bills would be sold, and this announcement should be made after taking into consideration the seasonal requirements of the time of the year. In the event of the India Office not being able to dispose of their budgeted and advertised amount of Council Bills then India would send out the gold. The main reason alleged for selling extra Council Bills being for payment of silver, therefore if the Government programme of purchases of silver be settled in advance and form part of the budgeted amount of Council Bill drawings, these sales of extra Council Bills will be avoided.

*Government Currency Measures.*—The measures taken by the Government of India and the Secretary of State for India in Council to maintain the exchange value of the rupee are in accordance with the recommendation of the Indian Currency Committee of 1898, with the exception of the question of an open mint for gold recommended by the Committee. India has not suffered by the absence of the gold mint since 1898, and I do not think that any inconvenience will be felt in India, at least for some years to come, as in my opinion there will not be a sufficiency of gold bullion to keep the mint going, and if South Africa were to open a gold mint the necessity of having one in India would be further removed. The only reason I consider that may be put forward for having an open gold mint in India, is to bring her into line with the other civilised nations of the world, and even then I am strongly of opinion that the minting should be confined to the sovereign.

5. *Gold Standard Reserve.*—There should be no limit to the amount of the gold standard reserve fund, which should be allowed to increase indefinitely. I would suggest that half of the gold standard fund should be maintained in India in sovereigns, and the other moiety kept in London. That as soon as it would appear that there is a sufficiency of gold in circulation and ample gold balances in the various Reserves and Treasuries in India, the sovereign should be declared available in exchange for rupees by Government. The London amount should not be locked up in securities, but should be loaned out on the London market for short periods, as stated in paragraph 2 under General Cash Balances.

6. *Paper Currency Reserve.*—The entire metallic reserves of the Paper Currency Department, except 10 per cent. of the total note issue should be held in India and the whole amount should be kept in rupees and sovereigns. The above 10 per cent. should be invested in India for the purpose of meeting the attendant expenses in connection with the issue of notes and not with the object of making profit. In this connection I may be permitted to draw the special attention of the Royal Commission to the advisability of the Government of India introducing the issue of gold currency note in addition to the present rupee notes, such notes to be issued on tender of sovereigns (which are to be kept intact) until the gold notes are presented for encashment. This suggestion is on the lines of the American Currency arrangement.

7. *State Bank.*—I would prefer not to offer any opinion about this until all the main particulars and the details on which a State Bank is proposed to be organised are known. If my above suggestion be followed, that a portion of the Government balances may be made available for the assistance of trade as loans, one of the chief arguments for the formation of a State Bank is met. There will then be no necessity for a Bank with a huge capital to be started,

to take the place of the Presidency Banks, from the point of view that Indian trade require such additional financial assistance. There are sure to arise several difficulties, not the least of which would be the location in India of the head office of the proposed bank.

I have &c.
(Signed) SASSOON DAVID.

## APPENDIX XL.

### STATEMENT SUBMITTED BY SIR VITHALDAS D. THACKERSEY, MILLOWNER, BOMBAY, EXPLAINING HIS VIEWS ON THE QUESTIONS REFERRED TO THE COMMISSION.

1. I do not desire to say much with regard to the large accumulation of balances in recent years, except that I deprecate the exaggerated caution with which the Budgets of the Government of India are framed. I was for three years in the Imperial Legislative Council as a member elected by the non-official members of the Bombay Legislative Council, and I am convinced by the experience I had during the period that, as a result of excessive caution, a much larger revenue is raised from the taxpayers than the needs or circumstances of the country warrant. In March 1910, when new taxation was imposed, the non-official members, both Europeans and Indians, protested against its imposition on the main ground that there was no need for it if the Budget was framed with ordinary care. The event proved that the non-official members were right, as the actuals gave a surplus of about six millions sterling instead of the expected deficit 250,000*l*. The reason generally adduced for this extra-ordinary caution on the part of the Finance Member is that India, being in the main an agricultural country exposed to the vicissitudes of rainfall, revenue estimates have to be made with considerable reserve. The consequence is that in a normal year there is always a surplus and often a large surplus.

*Surplus in Sterling.*

| — | Estimate. | Actual. |
|---|---|---|
| 1909–10 - | 30,400 | 1,500,677 |
| 1910–11 - | 246,200 | 5,897,489 |
| 1911–12 - | 896,800 | 4,939,418 |
| 1912–13 - | 79,400 | 7,467,600 |

2. It is true that a certain proportion of the surplus is distributed at the end of the year in the shape of special grants. It must be admitted that such doles have been in practice given for good and useful objects, but the system to my mind is demoralising. It is known, as soon as the monsoon turns out well, that a heavy surplus will accrue, and all the Departments become eager to get a share in the spoils to be distributed at the end of the official year. From the point of view of the Finance member, the system may be said to be an ideal one, as he is perfectly sure of his estimates not working out in the end on the wrong side, even if the season prove a failure, while in normal years he is a supremely happy man commanding crores to be distributed for good objects, and receives the hearty congratulations of the Council and the public on his good fortune. In the rapture of the moment, only a few realise that the crores of surplus have been needlessly taken out of the people in excess of the legitimate requirements of the country. I am strongly of opinion, therefore, that a more rational system of preparing Budgets should be introduced in place of the existing system.

3. Many ways may be suggested to improve matters. To my mind, the best way is to create a reserve fund out of the surplus profits whenever they accrue. The Budget should be framed with reasonable care only, and if, by unforeseen circumstances, a deficit arises it should be wiped off from the reserve. The institution of such a reserve will greatly lessen the bug-bear of possible deficit in the mind of the Finance member, and he will be able to frame his estimates in a more balanced state of mind. The evil of the present system is accentuated by the fact that the surplus accruing in any year is not carried forward to next year's account, but is used largely for capital expenditure, except a portion which is distributed as specia' grants. During the last few years several crores have been used for capita

expenditure which were collected as ordinary revenue. This, to my mind, is unsound finance.

4. With a sound system of finance there ought not to be the large balances we have had in the past, but whatever balances we may have, in the first place they ought to be employed as far as possible in helping the trade of the country. While millions have been invested in London at 2½ per cent., the Bank rate in India on Government paper has risen to so much as 8 per cent. If Government had been prepared to lend some portion of this balance in India, it would have been immediately taken up. In fact, an application was made to the Government of India last year for an advance of Rs. 40 lakhs on Government paper, but the application was refused. It is true that Government of India have been prepared for the last several years to make advances to the Presidency Banks at the Bank rate on the security of Government paper. No Presidency Banks have taken advantage of this for the past six years, and it is quite natural that it should be so. Why should Presidency Banks borrow from Government and lend to the public, not only without any profit to themselves, but, on the contrary, at a great disadvantage to them, as the lowering of the Bank rate or the prevention of its rise would considerably interfere with their profit on their working capital? I shall refer to this point later on in my suggestions as to how the advances can be profitably made in the interests of the public.

5. *Banking.*—I have carefully gone through the memorandum* prepared by Mr. L. Abrahams on the question of the establishment of a central Bank. While I am inclined to think that the establishment of such a bank on the whole will to some extent ease the high banking rate ruling in India, I am afraid that the advantages of such a Bank will not be equally distributed throughout the country. If the head office of a central Bank be located in Calcutta, Bengal will certainly be placed in a more favourable position than it holds now, while Bombay and Madras will be placed at a disadvantage. In money-lending, more than in other business, personal knowledge of men is an important factor, and it is impossible to expect the board of directors in Calcutta to possess the same intimate knowledge of local conditions of Bombay or of Madras as they will have of Calcutta. Advisory boards at different places might meet the difficulty to a certain extent, but not wholly. In any case, if a Central Bank is to be established, Bombay is the proper place for it as the chief market for bullion and gilt-edged securities. On the whole I believe the present difficulties might be met by less radical methods than the establishment of a central Bank by enlarging the scope of the existing institutions, which have so far proved of admirable service. The chief reason of the monetary stringency in the busy season in India is the policy of Government of withdrawing money from circulation at a time when it is most needed. The time when Government collect revenue is the time when money is required for financing large crops. The stringency would be less if the revenue of Government were paid into the Presidency Banks instead of being locked up in the Government treasury. The United States is the only civilised country where such a policy is adopted, but even it feels the need for changing the system. The question then arises whether it would be safe to put such a large amount of Government money in the Presidency Banks. The Government, by the resolution above referred to, have agreed to advance money to the Presidency Banks on Government securities at Bank rate, and, as I have pointed out, this privilege is not utilised by the Presidency Banks. Government ought to lend to the Presidency Banks at 1 to 1½ per cent. under the Bank rate, as the Banks must be allowed some profit for extra risk they take. It must also be provided, in order to prevent an avoidable rise in the Bank rate, that if the Bank rate goes over six per cent., and the Presidency Banks do not take loans from Government at the concession rate, any other approved Bank or approved individual would be entitled to borrow money on Government paper from them at a rate not exceeding 6 per cent. This will prevent the Presidency Banks from refusing to utilise the concession as they have been doing up till now, relying on the stringency of the money market and public opinion to compel Government to increase their deposits in the Presidency

* *See* Cd. 7071, Appendix XIV., page 339.

Banks without interest. By Government confining themselves to lending money on Government paper and bonds of public bodies, there is some danger of only one kind of securities coming into the hands of Government, and in case of Government requiring to withdraw their money, a large quantity of one kind of securities might have to be thrown on the market, and thus the market for their own securities might be depressed. In order to prevent this, Government should accept from the Presidency Banks short-term bills, endorsed by two or more approved individuals. The selection of such bills if Government consider any extra precaution necessary, might be left to a local committee of experienced men in each Presidency. Government will then have the security of substantial parties in addition to that of the Banks, and as the bills would be continuously falling due from time to time being short-term bills, Government can, without difficulty, withdraw their money without greatly disturbing the market. Such loans should be made from the cash balances when available, otherwise from the paper currency reserve.

6. With the facilities mentioned above, and with the power to the Presidency Banks to borrow money in London, I think the existing banking facilities will be sufficient and capable of adequate expansion.

7. I think Presidency Banks ought to be allowed to borrow in London.

8. Without expressing any opinion as to the wisdom or otherwise of the course adopted in closing the mints to the free coinage of silver, I am strongly against reversing the policy and re-opening the mint for the free coinage of silver. Things have adjusted themselves and the country is prospering under the present system.

9. I do not believe that there is any hoarding to an appreciable extent of gold in India. India is a large country, and a certain quantity of gold will always be required for jewellery owing to prevailing customs. With our enormous population, I do not think that the quantity of bullion consumed in India, both of silver and gold, for legitimate purposes is at all too large. Using gold for ornaments may in a certain sense be called hoarding as compared to putting money in banks for active circulation. But it is not hoarding in the same sense as the accumulations by rich individuals and princes, which are hoarding in the true sense of the word.

10. The latest official reports are so clear as to the increasing circulation of gold from hand to hand that it is unnecessary for me to adduce any other proof; but I can say from my personal knowledge that gold coins are readily accepted, even in the remote villages, while currency notes are not so accepted.

11. I am in favour of opening a mint in India to the free coinage of gold. No seigniorage should be charged for the coining of such gold; otherwise the very object of establishing a gold mint will be frustrated. I have advocated in the Imperial Council the coinage of 10-rupee gold pieces, as I consider that it is a very suitable and very convenient unit for the Indian people. The people of India, who are mostly illiterate, cannot easily calculate large sums except as multiples of ten. Moreover, India can, it seems, have such a coin independently of the interference of the Royal Mint. For exchange purposes there will not be much difference between a 10-rupee and 15-rupee gold coin, as all coins outside the countries of their origin have only their bullion value. The cost of minting an independent gold coin, it is admitted, would be very small. With regard to the argument that the gold coins are expensive and wasteful, the argument applies to all countries in the world. No doubt it is a distinct advantage if more paper money is used; but that is a more advanced stage in the evolution of currency, and no doubt it will come in time when once the people are accustomed to use gold as currency.

12. I am in favour of a special gold standard reserve. A portion of it should be held in actual gold in India. I am not in favour of using the profit on coinage for ordinary or capital expenditure until a *pucca* gold currency is introduced in India, *i.e.*, a gold standard with a gold currency. I would go on increasing the gold standard reserve without fixing a maximum. I would not mind investing a part of the gold standard reserve in securities,

but only in short-dated bonds and not in any permanent securities, the realisation of which might create difficulties at the time we want to realise money on the same.

13. I do not approve of the use of one million pounds for railway developments made in 1907.

14. The recently introduced system of ear-marking gold for the gold standard reserve at the Bank of England is not as good as gold of the gold standard reserve kept in India.

15. I have no objection to the present practice of holding silver to the extent of six crores in the gold standard reserve in India; but the more logical course, it seems to me, will be to hold the gold standard reserve wholly in gold and to hold in the paper currency all the silver which may be needed, whether for paper currency or for the reserve of silver, for the purposes for which the silver branch of the gold standard reserve was instituted.

16. I have no remarks to offer on the present method of management of the paper currency reserve. I am in favour of making future investments in sterling securities as a further line of defence of our currency system.

17. I am not in favour of locating part of the paper currency reserve in gold in London.

18. So long as the intrinsic value of the rupee is much lower than its face value I am in favour of holding gold for reserve against notes, provided of course that sufficient silver coins are maintained in the paper currency reserve to meet likely demands and subject to my observations in paragraph 15.

19. I am not enthusiastic about the creation of a central bank, as will be found from my remarks above; but I believe that the establishment of the central bank is practically impossible without handing over the paper currency to it. From the country's point of view the present management of the paper currency is of the greatest advantage to it. Our paper currency is getting more and more popular every day. I am convinced that the circulation will be still further increased under the present policy. It is difficult to estimate the effect that the transfer of paper currency to the central Bank may have on the people, but there is the danger in a country like India, where a large part of the population is ignorant, of creating suspicion in the minds of the people that the Government are relieving themselves of the responsibility for paying money for currency notes and transferring that responsibility to the Bank, and thus the paper money may become less popular. I do not say that such effect is sure to be produced, but why take the risk when the present system has worked admirably and has succeeded in securing the complete confidence of the public? There is one further reason, namely, that the handsome profits derived from notes which will never be returned, viz., lost, burnt, and otherwise destroyed, go to the country, in addition to the interest on investments. All this will go to the central Bank unless due provision is made for Government getting an adequate return for these concessions.

20. The rupee coinage cannot be arbitrarily restricted under the present law. Whenever gold is tendered Government is bound to give rupees, and it cannot cease coining rupees unless the demand ceases. As to the purchase of silver Government should buy in sufficient time before the actual demand arises and should not wait, as it did in recent years, until the very last moment. The result of this latter course is that unnecessary speculation is fostered among merchants, and the country suffers by having to pay a needlessly high price for silver.

# PPENDIX XLI.

Bank of Madras, Madras,
9th October 1913.

SIR,

I HAVE the honour to enclose a copy of my letter of date addressed to Mr. Abrahams, and shall be much obliged if you will be good enough to lay it before the Commission.

I have the honour to be,
Sir,
Your most obedient servant,
W. B. HUNTER,
Secretary and Treasurer.

The Secretary,
The Royal Commission on Indian Finance and Currency,
c/o India Office, London.

(Copy.)

Bank of Madras, Madras,
9th October 1913.

DEAR SIR,

I WRITE to correct an unfortunate clerical error in statements submitted by you to the Royal Commission on Indian Finance and Currency, an error which was particularly emphasised in your reply to Question No. 88, in which you say: "I would draw your attention in passing to the middle "column 'Bank of Madras, 1911, March' (Appendix 1, paragraph 15-2). "If you will notice the figure there, the percentage of Government deposits "to cash is 121 per cent.—I think that at that particular time it would not "have been a good thing to lend more money to the Bank of Madras."

On turning to Statement D, Appendix II., on page 79 of Vol. I. of the appendices to the Interim Report, it will be seen that under date March 1911, Government deposits are shown as Rs. 75,43,474, cash Rs. 62,42,990, percentage 121. On that date the cash balance of the Bank was Rs. 1,62,42,990, the percentage of Government account to cash being therefore 46·4 and not 121.

While agreeing with you that "it is a question of the most enormous "difficulty to say at what stage it becomes unsafe for a very big customer "or depositor with a bank to increase his deposit with that bank," from the banker's point of view the main consideration in regard to his cash balance is—how much can the big depositor withdraw on demand or at short notice?

On the date in question the Bank's cash was Rs. 1,62,42,990, and Government deposits amounted to Rs. 75,43,474, but a large amount of this could—under agreement with the Government—not be withdrawn on demand or at short notice, and Government must keep working balances to meet outstanding credits and ordinary daily drawings.

| | | |
|---|---|---|
| The amount that could not be drawn under agreement on 25th March 1911 was:— | | Rs. 34,00,000 |
| Minimum working balances* below which Government account could not be reduced without immediate replenishment:— | | |
| Head Office | Rs. 7,00,000 | |
| Calicut | 1,00,000 | |
| Cocanada | 1,50,000 | |
| Cochin | 25,000 | |
| Coimbatore | 1,00,000 | |
| Guntur | 1,00,000 | |
| Mangalore | 75,000 | |
| Masulipatam | 50,000 | |
| Negapatam | 50,000 | |
| Ootacamund | 75,000 | |
| Tuticorin | 1,00,000 | |
| | | * 15,25,000 |
| | | 49,25,000 |

* NOTE.—With these minima there would be considerable risk of the accounts being overdrawn.

Therefore the largest amount by which Government account could possibly have been reduced on 25th March 1911 was Rs. 26 lacs, or 16 per cent of the cash balance.

The general position of the Bank on the date in question was as follows:—

Percentage of cash to total liabilities payable on demand - 48·57
Percentage of cash to total liabilities payable on demand and within one month - - - - - 47·35

I may mention that in "cash" balances with other Banks, amounting to Rs. 16,65,000, are *not* included.

I submit, therefore, that the cash position was quite strong enough to justify an increase of Government deposits. With regard to the larger issue, viz., whether the capital and reserve of the Bank is sufficient to justify larger total deposits by Government, the following comparative statement may be of interest:—

*Bank of England* (from Return of 13th March 1913):—
Capital and rest, £18·2 millions.
Reserve in Banking Department, £27·9 millions.
Public deposits, £26·7 millions.
Percentage of public deposits to capital and rest, 146·7.
Do. do. to reserve in Banking Department, 95·7.

*Bank of Madras*:—
Capital and reserve, Rs. 148,00,000.
Total cash (as at 21st December 1912), Rs. 216,45,000.
Highest Government balance during year 1912–13 (on 21st December 1912), Rs. 93,24,000.
Percentage of Government balance to capital and reserve, 63.
Do. do. to total cash, 44·3.

As the correction of the unfortunate clerical error is very important I am sending a copy of this letter to the Secretary of the Commission.

Yours faithfully,
(Signed) W. B. HUNTER,
Secretary and Treasurer.

Lionel Abrahams, Esq., C.B.
India Office, Whitehall, S.W.

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Bank of Madras, Madras,
9th October 1913.

SIR,

WITH reference to Mr. M. R. Sundara Iyer's answers to questions 8898, 8968 and 8972, in which he states that the present banks do not finance Indian trade or Indian exigencies to the extent that they ought, and that if the Bank Rate were reduced it would not filter down to the cultivator, I shall be obliged if you will submit the following figures (which have been taken from the Bank's balance-sheet of 30th June 1913) to the Commission:—

| | |
|---|---|
| Total trade advances - - - - - - | Rs. 732 lacs. |
| Trade advances to Europeans - - - - | Rs. 144 lacs. |
| ,, ,, Indians - - - - | 588 ,, |
| | Rs. 732 ,, |

*i.e.*, 20 per cent. to Europeans, and 80 per cent. to Indians.

Of the advances to Indians a small amount is direct to cultivators, but large sums are advanced to Native Bankers, and through them filter down to the cultivator. No doubt the Native Bankers keep their rates high, but when the Bank Rate is high they restrict their borrowings and also their advances to the cultivator.

Yours faithfully,
W. B. HUNTER,
Secretary and Treasurer.

The Secretary,
The Royal Commission on Indian Finance and Currency,
c/o Indian Office, London.

# APPENDIX XLII.

STATEMENT of GOVERNMENT BALANCES held by the PRESIDENCY BANKS, handed in by Mr. BHUPENDRA NATH MITRA, C.I.E. with reference to, Q. 4501 [Cd. 7069.]

*In thousands of Rupees.*

| Last day of | 1910–11. | | | 1911–12. | | | 1912–13. | | |
|---|---|---|---|---|---|---|---|---|---|
| | Head Offices. | Branches. | Total. | Head Offices. | Branches. | Total. | Head Offices. | Branches. | Total. |
| April - - - | 1,73,07 | 1,87,90 | 3,60,97 | 1,84,81 | 2,27,50 | 4,12,31 | 1,80,30 | 2,20,05 | 4,00,35 |
| May - - - | 1,88,09 | 2,11,55 | 3,99,64 | 1,58,44 | 2,50,36 | 4,08,80 | 1,77,14 | 2,33,26 | 4,10,40 |
| June - - - | 1,46,10 | 2,07,82 | 3,53,92 | 1,69,76 | 2,31,85 | 4,01,61 | 2,12,82 | 2,20,28 | 4,33,10 |
| July - - - | 1,80,14 | 2,10,94 | 3,91,08 | 1,63,42 | 2,45,69 | 4,09,11 | 3,17,51 | 2,28,17 | 5,45,68 |
| August - - | 1,50,12 | 2,09,03 | 3,59,15 | 1,65,12 | 2,52,76 | 4,17,88 | 2,03,38 | 2,24,06 | 4,27,44 |
| September - - | 2,03,43 | 2,06,65 | 4,10,08 | 1,62,22 | 2,55,69 | 4,17,91 | 2,00,48 | 2,21,86 | 4,22,34 |
| October - - | 1,93,11 | 2,16,79 | 4,09,90 | 1,86,47 | 2,46,76 | 4,33,23 | 1,94,53 | 2,16,06 | 4,10,59 |
| November - - | 1,77,00 | 2,10,57 | 3,87,57 | 1,74,27 | 2,74,41 | 4,48,68 | 1,88,28 | 2,34,67 | 4,22,95 |
| December - - | 1,94,52 | 2,01,12 | 3,95,64 | 1,58,49 | 2,81,54 | 4,40,03 | 1,80,28 | 2,45,43 | 4,25,71 |
| January - - | 1,74,50 | 1,85,09 | 3,59,59 | 1,64,66 | 2,15,29 | 3,79,95 | 1,95,16 | 2,71,61 | 4,66,77 |
| February - - | 1,75,89 | 2,10,85 | 3,86,74 | 1,44,81 | 2,23,93 | 3,68,74 | 2,03,45 | 2,89,86 | 4,93,31 |
| March - - | 1,65,79 | 2,44,19 | 4,09,98 | 2,00,86 | 2,28,09 | 4,28,95 | 2,38,32 | 3,26,78 | 5,65,10 |

# APPENDIX XLIII.

STATEMENT of CASH RECEIPTS and DISBURSEMENTS over SHORT PERIODS at the HEAD OFFICES and BRANCHES of the three PRESIDENCY BANKS.

## I.

### BANK of BENGAL during the four weeks ended 28th June 1913.

| | Receipts. | | | | | | Disbursements. | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Percentage in | | | Percentage relative to Total Receipts. | | | Percentage in | | | Percentage relative to Total Disbursements. | | |
| | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. |
| Agra | 13·78 | 70·47 | 15·75 | 0·33 | 1·70 | 0·38 | 6·18 | 61·50 | 32·32 | 0·17 | 1·70 | 0·90 |
| Akyab | 1·76 | 94·19 | 4·05 | 0·01 | 0·66 | 0·03 | 1·90 | 95·61 | 2·49 | 0·01 | 0·69 | 0·02 |
| Allahabad | 52·12 | 43·48 | 4·40 | 0·83 | 0·69 | 0·07 | 55·24 | 33·88 | 10·88 | 0·73 | 0·45 | 0·14 |
| Benares | 17·19 | 60·55 | 22·26 | 0·17 | 0·60 | 0·22 | 38·26 | 54·95 | 6·79 | 0·33 | 0·48 | 0·06 |
| Bombay | 99·93 | ·02 | ·05 | 11·08 | 0·00 | 0·01 | 99·94 | ·02 | ·04 | 9·12 | 0·00 | 0·00 |
| Head Office and Local Branches | 86·61 | 12·43 | ·96 | 42·77 | 6·14 | 0·48 | 89·12 | 10·62 | ·26 | 43·90 | 5·23 | 0·13 |
| Cawnpore | 29·85 | 34·71 | 35·44 | 0·94 | 1·09 | 1·11 | 42·70 | 21·23 | 36·07 | 1·65 | 0·82 | 1·39 |
| Chittagong | 3·58 | 96·25 | ·17 | 0·03 | 0·73 | 0·00 | 16·39 | 82·68 | ·93 | 0·05 | 0·23 | 0·00 |
| Dacca | 16·79 | 83·18 | ·03 | 0·35 | 1·73 | 0·00 | 28·73 | 70·42 | ·85 | 0·45 | 1·09 | 0·01 |
| Delhi | 5·59 | 53·48 | 40·93 | 0·16 | 1·55 | 1·19 | 10·24 | 34·86 | 54·90 | 0·22 | 0·75 | 1·18 |
| Hyderabad | 10·13 | 84·17 | 5·70 | 0·13 | 1·08 | 0·07 | 22·72 | 75·01 | 2·27 | 0·29 | 0·95 | 0·03 |
| Jalpaiguri | 23·20 | 76·80 | — | 0·12 | 0·41 | — | 17·91 | 82·09 | — | 0·12 | 0·54 | — |
| Lahore | 46·22 | 21·88 | 31·90 | 2·86 | 1·36 | 1·98 | 51·15 | 22·79 | 26·06 | 4·86 | 2·17 | 2·48 |
| Lucknow | 18·28 | 68·43 | 13·29 | 0·37 | 1·37 | 0·27 | 25·12 | 60·42 | 14·46 | 0·61 | 1·47 | 0·35 |
| Moulmein | 6·32 | 93·65 | ·03 | 0·06 | 0·94 | 0·00 | 10·79 | 84·80 | 4·41 | 0·09 | 0·70 | 0·04 |
| Nagpore | 5·12 | 93·57 | 1·31 | 0·07 | 1·31 | 0·02 | 18·30 | 67·58 | 14·12 | 0·19 | 0·69 | 0·15 |
| Patna | 20·61 | 78·92 | ·47 | 0·19 | 0·72 | 0·00 | 25·08 | 74·48 | ·44 | 0·20 | 0·60 | 0·00 |
| Rangoon | 83·48 | 16·31 | ·21 | 8·86 | 1·73 | 0·02 | 94·92 | 4·24 | ·84 | 9·03 | 0·40 | 0·08 |
| Secunderabad | 10·90 | 88·00 | 1·10 | 0·04 | 0·36 | 0·00 | 13·82 | 79·99 | 6·19 | 0·12 | 0·69 | 0·05 |
| Simla | 75·14 | 16·28 | 8·58 | 0·46 | 0·10 | 0·05 | 70·39 | 23·70 | 5·91 | 0·85 | 0·29 | 0·07 |
| Totals | — | — | — | 69·83 | 24·27 | 5·90 | — | — | — | 72·98 | 19·94 | 7·08 |
| | | | | 100 | | | | | | 100 | | |

II.

BANK OF BOMBAY during the months from February to May 1913.

| | Receipts. | | | | | | Disbursements. | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Percentage in | | | Percentage relative to Total Receipts. | | | Percentage in | | | Percentage relative to Total Disbursements. | | |
| | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. |
| Head Office | 87·99 | 10·09 | 1·91 | 65·84 | 7·55 | 1·43 | 92·74 | 5·94 | 1·31 | 65·87 | 4·22 | 0·93 |
| Ahmedabad | 28·67 | 63·92 | 7·40 | 0·46 | 1·03 | 0·12 | 9·75 | 83·29 | 6·95 | 0·16 | 1·36 | 0·11 |
| Akola | 1·82 | 94·89 | 3·28 | 0·02 | 1·24 | 0·04 | 0·81 | 96·97 | 2·21 | 0·01 | 1·51 | 0·04 |
| Amraoti | 5·41 | 91·18 | 3·40 | 0·06 | 1·03 | 0·04 | 1·13 | 95·51 | 3·35 | 0·02 | 1·92 | 0·07 |
| Broach | 6·37 | 63·23 | 30·39 | 0·08 | 0·82 | 0·39 | 1·17 | 66·31 | 32·51 | 0·05 | 2·92 | 1·43 |
| Hyderabad, Sind | 27·65 | 66·56 | 5·78 | 0·25 | 0·60 | 0·05 | 33·01 | 55·63 | 11·35 | 0·21 | 0·35 | 0·07 |
| Indore | 26·38 | 50·21 | 23·40 | 0·36 | 0·68 | 0·32 | 35·90 | 32·34 | 31·75 | 0·53 | 0·47 | 0·47 |
| Jalgaon | 6·77 | 49·37 | 43·85 | 0·04 | 0·26 | 0·23 | 3·64 | 60·44 | 35·91 | 0·02 | 0·28 | 0·17 |
| Karachi | 97·05 | 1·77 | 1·17 | 13·05 | 0·24 | 0·16 | 98·26 | 0·82 | 0·91 | 12·63 | 0·10 | 0·12 |
| Poona | 49·30 | 44·93 | 5·76 | 0·49 | 0·45 | 0·06 | 52·74 | 40·49 | 6·76 | 0·77 | 0·69 | 0·10 |
| Rajkot | 20·40 | 73·32 | 6·27 | 0·16 | 0·57 | 0·05 | 7·45 | 81·30 | 11·24 | 0·04 | 0·50 | 0·07 |
| Sholapur | 10·77 | 85·81 | 3·41 | 0·05 | 0·41 | 0·01 | 9·43 | 83·35 | 7·21 | 0·04 | 0·35 | 0·03 |
| Sukkur | 17·65 | 72·61 | 9·73 | 0·11 | 0·44 | 0·06 | 21·54 | 52·39 | 26·06 | 0·18 | 0·43 | 0·21 |
| Surat | 56·32 | 32·27 | 11·40 | 0·42 | 0·24 | 0·09 | 50·90 | 33·56 | 15·53 | 0·33 | 0·22 | 0·10 |
| Totals | — | — | — | 81·39 | 15·56 | 3·05 | — | — | — | 80·86 | 15·22 | 3·92 |
| | | | | 100 | | | | | | 100 | | |

III.

## Bank of Madras from 1st to 28th June 1913.

| | Receipts. | | | | | | Disbursements. | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Percentage in | | | Percentage relative to Total Receipts. | | | Percentage in | | | Percentage relative to Total Disbursements. | | |
| | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. | Currency Notes. | Rupees. | Gold. |
| Head Office | 87·32 | 11·96 | 0·72 | 38·97 | 5·34 | 0·32 | 91·66 | 6·52 | 1·82 | 40·52 | 2·88 | 0·81 |
| Alleppey | 0·21 | 85·23 | 14·56 | 0·01 | 3·01 | 0·52 | 0·16 | 88·49 | 11·35 | 0·01 | 2·78 | 0·36 |
| Bangalore | 26·53 | 73·42 | 0·05 | 1·43 | 3·95 | 0·00 | 35·72 | 63·62 | 0·66 | 1·61 | 2·86 | 0·03 |
| Bimlipatam | 13·24 | 86·31 | 0·45 | 0·29 | 1·93 | 0·01 | 22·34 | 77·66 | 0·00 | 0·57 | 1·97 | 0·00 |
| Calicut | 59·10 | 39·82 | 1·08 | 1·78 | 1·20 | 0·03 | 59·21 | 38·65 | 2·14 | 1·46 | 0·95 | 0·05 |
| Cocanada | 22·63 | 77·37 | 0·00 | 0·55 | 1·89 | 0·00 | 11·30 | 85·00 | 3·70 | 0·46 | 3·48 | 0·15 |
| Cochin | 13·33 | 23·18 | 63·49 | 0·62 | 1·09 | 2·98 | 0·28 | 22·30 | 77·42 | 0·01 | 0·74 | 2·55 |
| Coimbatore | 92·98 | 6·19 | 0·83 | 1·64 | 0·11 | 0·02 | 79·35 | 20·18 | 0·47 | 1·84 | 0·47 | 0·01 |
| Erode | 34·14 | 65·60 | 0·26 | 0·45 | 0·87 | 0·00 | 47·73 | 52·22 | 0·05 | 0·49 | 0·54 | 0·00 |
| Guntur | 18·60 | 81·40 | — | 0·57 | 2·53 | — | 15·67 | 82·56 | 1·77 | 0·44 | 2·39 | 0·05 |
| Madura | 33·15 | 65·97 | 0·88 | 1·05 | 2·09 | 0·03 | 27·44 | 72·30 | 0·26 | 0·99 | 2·61 | 0.01 |
| Mangalore | 46·98 | 52·74 | 0·28 | 0·72 | 0·81 | 0·00 | 68·60 | 26·50 | 4·90 | 1·14 | 0·44 | 0·08 |
| Masulipatam | 27·68 | 72·23 | 0·09 | 0·23 | 0·59 | 0·00 | 33·50 | 58·40 | 8·10 | 0·36 | 0·63 | 0·09 |
| Negapatam | 18·43 | 81·56 | 0·00 | 0·69 | 3·04 | 0·00 | 33·32 | 66·40 | 0·28 | 1·52 | 3·03 | 0·01 |
| Ootacamund | 76·73 | 19·48 | 3·79 | 0·61 | 0·16 | 0·03 | 57·56 | 39·65 | 2·79 | 0·97 | 0·67 | 0·05 |
| Salem | 32·28 | 67·70 | 0·02 | 0·29 | 0·60 | 0·00 | 38·09 | 61·91 | — | 0·21 | 0·34 | — |
| Tellicherry | 26·73 | 72·70 | 0·57 | 1·52 | 4·14 | 0·03 | 9·00 | 90·53 | 0·47 | 0·35 | 3·47 | 0·02 |
| Tuticorin | 4·33 | 95·63 | 0·04 | 0·49 | 10·77 | 0·00 | 2·89 | 96·77 | 0·34 | 0·36 | 12·13 | 0·04 |
| Totals | — | — | — | 51·91 | 44·12 | 3·97 | — | — | — | 53·31 | 42·38 | 4·31 |
| | | | | 100 | | | | | | 100 | | |

# APPENDIX XLIV.

CORRESPONDENCE WITH MR. GOPAL KRISHNA GOKHALE, C.I.E., A FORMER MEMBER OF THE VICEROY'S LEGISLATIVE COUNCIL, REGARDING THE SUBMISSION BY HIM TO THE COMMISSION OF A STATEMENT OF HIS VIEWS ON THE SUBJECTS REFERRED TO THE COMMISSION FOR CONSIDERATION.

Dear Sir, 12th June 1913.

I HAVE shown your letter of the 7th instant to the Chairman of this Commission. He desires me to express his great regret that you find yourself unable to attend and give evidence before the Commission, as the Commission were particularly anxious to have the advantage of hearing you. He is also very sorry to hear of the cause which makes it necessary for you to decline the invitation to attend.

In the circumstances the Chairman feels that he cannot press you further to appear as a witness before the Commission, but the Commission would be very glad if you could see your way to preparing, for their benefit, a short statement of your views on the subjects referred to the Commission for consideration, and in particular of any criticisms on the existing policy and methods adopted by the India Office and the Government of India in regard to currency and finance. Such a statement could, if the Commission so desired, be incorporated in an appendix to their report as representing your views.

Yours faithfully,
BASIL P. BLACKETT.

G. K. Gokhale, Esq., C.I.E.
12, Queen Anne's Gate, S.W.

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Servants of India Society, Poona City,
17th October 1913.

Dear Sir,

I ARRIVED in this country from Europe on the 3rd of this month, and I shall have to rejoin the Royal Commission on Public Services in India on the 31st instant. I had hoped to be able to put down on paper, during this interval, my views on some of the questions referred to the Royal Commission on Indian Finance and Currency, as so kindly desired by its Chairman. But I regret to say that the demands on my brief time—largely on account of recent developments in the situation of the British Indians in South Africa—are so heavy that I find it impossible to handle satisfactorily the material which I had desired to work up and on which I had intended to base my views. In these circumstances, I have no choice but respectfully to ask that the Commission will be pleased to excuse me for my inability to respond to its invitation.

Yours faithfully,
G. K. GOKHALE.

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Dear Sir, 4th November 1913.

I HAVE the honour to acknowledge the receipt of your letter of the 17th ultimo, stating that you regret, owing to the demands on your time, to be unable to furnish to this Commission your views on any of the questions referred to it for consideration. Your letter will be laid before the Chairman and members of the Commission.

Yours faithfully,
BASIL P. BLACKETT.

G. K. Gokhale, Esq.,
Servants of India Society,
Poona City, Bombay.

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# APPENDIX XLV.

STATEMENTS SUPPLIED BY THE GOVERNMENT OF INDIA SHOWING THE WORKING OF THEIR TREASURY SYSTEM, TOGETHER WITH TWO PREFATORY NOTES BY MR. M. F. GAUNTLETT, I.C.S., COMPTROLLER AND AUDITOR-GENERAL (WITH REFERENCE TO Q. 4760, PAGE 213, Cd. 7069).

Finance Department, Simla,
14th August 1913.

Dear Mr. Newmarch,

WITH reference to your demi-official letter No. F. 3560, dated 18th July 1913, I write to let you know that the information as to the working of Indian treasuries, required by the Royal Commission on Indian Finance, is being collected and will be supplied as soon as it is available. It will not be practicable, however, to include separate information about sub-treasuries as their transactions are incorporated in the District Treasury accounts and not shown separately. Sub-treasuries are merely centres for collecting revenue and very few payments are made by them, surplus collections being remitted at frequent intervals to the District Treasury or occasionally to some more conveniently situated treasury.

Yours, &c.,
(Signed) J. B. BRUNYATE.

F. W. Newmarch, Esq.,
Financial Secretary,
India Office, London.

## I.

NOTE, DATED THE 26TH SEPTEMBER 1913, BY Mr. M. F. GAUNTLETT, I.C.S., COMPTROLLER AND AUDITOR GENERAL.

I propose to describe briefly in this note Resource operations in India in connection with Treasury balances.

2. The resource unit is the Treasury of which there are 271 in India. There is one treasury in each district and attached to each treasury are two or more sub-treasuries. These are mainly collecting centres and few classes of payments are made therein. Sub-treasury surpluses are usually remitted to the district treasury, but in some cases are remitted to a neighbouring treasury if that be nearer and in need of funds. Remittances from sub-treasuries usually have to travel 20 or 30 miles by road. The responsibility for the cash in each treasury rests in the treasurer who gives security and is a paid servant of Government, though allowed sometimes to work through a deputy. He has a staff of money-testers working under him.

3. Treasuries may be classified according to the magnitude of the transactions into "large," "medium," and "small," and also as "surplus" or "deficit." The statements submitted herewith indicate the magnitude of the transactions at each class of treasury. They also indicate that transactions vary largely from month to month, and from day to day, especially on the receipt side. The main causes of such variations are the dates on which the land revenue receipts fall due in each district, and the rush of public works expenditure during the cold weather. Another cause which is still important in a few districts, though not nearly so important as formerly, is the payment of advances to cultivators for opium sowings. Other causes of monthly variation are payments of interest and surplus profits to railway companies, and sales of opium and excise licenses.

4. The net result of these causes is that in every district the difference between revenue and expenditure varies largely from month to month. Thus a few districts are surplus every month, a few deficit in others. In the case of surplus and deficit treasuries we try to rectify matters by selling supply bills at deficit or surplus treasuries. At the other treasuries we try to retain the surplus receipts at the treasury to be used during these deficit months by transferring them to the currency chest, which is to be

found at almost every treasury. By this device part of the currency reserve is distributed over a large number of treasuries, and a large number of remittances of treasury balances are obviated by making a transfer from treasury to currency at one treasury against an equivalent transfer from currency to treasury at another. I mention this specially because it is most desirable from a resource point of view, that this device should be retained even if the management of the currency note issue be made over to a State Bank.

5. It will be seen that in selling supply bills and other similar forms of remittance, Government are undertaking banking business, and, in so doing, are benefitting themselves and offering a convenience to the public of which they would otherwise be deprived. All such business would of course fall into the hands of a State bank at every centre at which a branch is opened. For this reason the figures of such transactions are shown separately in the statements submitted herewith.

6. I now proceed to detail the statements submitted herewith, and to discuss the results shown therein.

7. Statement I. shows the total volume of annual transactions in district treasuries, Presidency Banks, and in reserve and remittance treasuries. Details by provinces are given in Statements II. to IV. The main feature in Statement I. is the gross issue (except as remittances) of 141 crores in 1912–13 from 271 treasuries. This is a monthly issue of 11¾ crores. To meet this monthly issue the treasury balances (including those at sub-treasuries) varied from 9 to 12 crores, except in March when it rose to 14. These were larger than usual as 1912–13 was a year of easy treasury balances. These balances fell as low as 6·9 crores in 1908–9. These figures of balances are those of the last day of each month when they have to be at their highest to meet the heavy payments at the beginning of each month. The average daily balances are probably considerably smaller.

It is possible too that in some cases post office receipts have been shown as "Remittances," as they are shown technically in the treasury accounts, although for this purpose they should be included under "Other transactions." If any such error has occurred the issues were larger than the 11¾ crores shown above.

8. Statements V. to VII. show the volume of transactions at small, medium, and large district treasuries, and the total number of treasuries in each class. No general scale, however, was fixed for the purpose of classification, so that the Accountants-General have fixed their own scales and the results when brought together are not satisfactory. Accepting the classification as it stands, however, I have facilitated comparison by grouping together the smaller provinces—Assam, Central Provinces and Bihar and Orissa, then India and Burma, which show a curious combination of small and large treasuries, and finally the more important provinces from the resource point of view, Bengal, United Provinces, Punjab, Madras, and Bombay.

It would have been preferable to have prescribed a general scale for all India, say, total transactions not exceeding annually 75 lakhs "small"—200 lakhs "medium"—others "large."

With such a scale it is probable that the distribution of treasuries would have been approximately as follows:—

| | Small under 75 lakhs. | Medium under 200 lakhs. | Large. | Total. |
|---|---|---|---|---|
| Assam | 7 | 6 | — | 13 |
| Central Provinces | 12 | 9 | 1 | 22 |
| Bihar and Orissa | 10 | 9 | 1 | 20 |
| India | 7 | 3 | 3 | 13 |
| Burma | 24 | 9 | 6 | 39 |
| Bengal | 7 | 15 | 4 | 26 |
| United Provinces | 15 | 26 | 7 | 48 |
| Punjab | 9 | 15 | 10 | 34 |
| Madras | — | 19 | 9 | 28 |
| Bombay | 4 | 16 | 8 | 28 |
| Total | 95 | 127 | 49 | 271 |

It is preferable, however, to have this statement prepared more exactly and I am therefore calling for revised statements V. to VII. classified as above and shall forward them on receipt.

The present number of branches of Presidency Banks is 35, and it is probable that all but one or two of these conduct the treasury work at treasuries classified as "large" above.

The present statements are interesting as showing that there are about 40 treasuries with annual transactions of less than 50 lakhs.

One important point to look at in these statements is the extent to which large surpluses are accumulated at treasuries which are not required there. Taking first the large treasuries (Statement VII.) it will be seen that the main excesses of receipts over issues under "Other transactions" occur in Burma 5¾ crores, Bengal 1¾ crores, and Madras 5 crores. Of course there are large surplus treasuries elsewhere, *e.g.*, Ajmere in India, Gorakhpur in the United Provinces, and Lyallpur in the Punjab, the two former from railway earnings paid in there and the last from heavy revenue receipts.

Some of the "medium" treasuries (Statement VI.) are also largely surplus, see, *e.g.*, Burma 1¼ crores, and Bengal 2 crores.

9. Statements VIII. to X. show the average volume of transactions in each month for a "small," "medium," and "large" treasury, and here the main feature is the heavy expenditure in the last quarter of the financial year, specially in March.

10. Statements XI. to XIII. show the variations in the transactions in each class of treasury in each province during the "kist" (period of payment of land revenue), slack and normal periods and periods of heavy payments. The majority of the treasuries under "India" are political and do not have fluctuations due to different seasons of revenue collections. The periods of revenue collections in the other provinces are indicated below:—

| | |
|---|---|
| Central Provinces | January to March and May (March being the heaviest season) to June. |
| Burma | Ditto ditto. |
| Assam | Ditto ditto. |
| Bengal | September, January, and March (January and March being the heaviest periods). |
| Bihar and Orissa | January and March. |
| United Provinces | 15th May to 31st July and 15th November to 31st January (December, January, May, and June being the heaviest periods). |
| Punjab and North-West Frontier Province | June to July and January to February (June, July, and January being the heaviest periods). |
| Madras | January to March. |
| Bombay | January to March (March is the heaviest period). |

The most noticeable features of these statements are—

(*a*) the constant remittances from treasuries during periods of heavy receipts. This seems to be an answer to any charge of unduly locking up funds in district treasuries (*see also* paragraph 7 above);

(*b*) the trivial nature of the transactions at small treasuries in slack and normal periods;

(*c*) the importance of March from the resource point of view as a period of very heavy receipts and payments.

11. Statements XIV. and XV. show the volume of transactions by months at the head offices of Presidency Banks and the reserve and the remittance treasuries, respectively, during the year 1912–13. The former, on the whole, shows less monthly variation than district treasuries.

12. Statement XVI. shows the volume of transactions for a week at the above treasuries, first when receipts are very heavy, secondly when payments are very high, and thirdly during normal periods when there are no specially large receipts or payments.

## II.

### Supplementary Note, dated the 16th October 1913, by Mr. M. F. Gauntlett.

With reference to paragraph 8 of my unofficial note, dated 26th September 1913, I forward herewith three revised statements showing the total volume of transactions at small, medium, and large treasuries during the year 1912–13, classification of treasuries being based on the scale referred to therein. According to this classification the distribution of treasuries would be as follows :—

| Province. | Small under 75 lakhs. | Medium under 200 lakhs. | Large. | Total. |
|---|---|---|---|---|
| Assam | 11 | 2 | — | 13 |
| Central Provinces | 14 | 6 | 2 | 22 |
| Bihar and Orissa | 7 | 13 | — | 20 |
| India | 10 | 1 | 2 | 13 |
| Burma | 22 | 13 | 4 | 39 |
| Bengal | 5 | 17 | 4 | 26 |
| United Provinces | 9 | 32 | 7 | 48 |
| Punjab | 20 | 10 | 4 | 34 |
| Madras | 1 | 15 | 12 | 28 |
| Bombay | 3 | 16 | 9 | 28 |
| Total | 102 | 125 | 44 | 271 |

Madras has got the highest number of large treasuries (12), of which 5 are in the charge of the Bank of Madras. Next to Madras are Bombay and United Provinces. The United Provinces have got the largest number of medium treasuries (32), and Burma and Punjab the largest number of small treasuries (22 and 20 respectively).

It may be mentioned that there is a difference of 3,95,72 in the total of payments under "Supply bills and telegraphic transfers" from that of the original figure in Statement No. II. This is due to the inclusion of currency transfers under treasury transactions by the Accountant-General, Burma. The reason for this inclusion has been stated to be that payments from currency chests form a very large portion of the transactions and are made by the treasury staff. In other provinces such payments are usually made from the treasuries after the requisite funds have been transferred from the currency chests to the treasury balances.

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### STATEMENT I.

Total Transactions at District Treasuries, Presidency Banks, and Reserve Remittance Treasuries during 1912–13.

(*In Thousands of Rupees.*)

| | Receipts. | | | | Issues. | | | | Total Volume of Transactions. |
|---|---|---|---|---|---|---|---|---|---|
| | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | |
| District Treasuries | 41,29,61 | 6,77,29 | 1,57,77,94 | 2,05,84,84 | 62,80,27 | 7,26,68 | 1,33,50,18 | 2,03,57,13 | 4,09,11,97 |
| Presidency Banks | 46,79,37 | 4,87,63 | 64,39,21 | 1,16,06,21 | 21,72,44 | 4,79,27 | 89,17,09 | 1,15,08,80 | 2,31,75,01 |
| Reserve Remittance Treasuries | 78,31,15 | — | 13,03,76 | 91,34,91 | 74,76,66 | — | 9,27,77 | 84,04,43 | 1,75,39,34 |
| Total | 1,66,40,13 | 11,64,92 | 2,35,20,91 | 4,13,25,96 | 1,59,29,37 | 12,05,95 | 2,31,95,04 | 4,03,30,36 | 8,16,56,52 |

## STATEMENT II.

### TRANSACTIONS OF DISTRICT TREASURIES DURING THE YEAR 1912–13.

*(In Thousands of Rupees.)*

| Provinces. | Number of Treasuries. | Receipts. | | | | Issues. | | | | Total Volume of Transactions. |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | |
| India - - - - | 13 | 2,01,78 | 18,09 | 6,91,63 | *9,11,50* | 2,33,45 | 13,02 | 6,53,77 | *9,00,24* | *18,11,74* |
| Central Provinces - | 22 | 2,51,80 | 11,89 | 7,45,65 | *10,09,34* | 4,12 50 | 9,64 | 5,29 47 | *9,51,61* | *19,60,95* |
| Burma - - - - | 30 | 3,96,88 | 1,21,42 | 19,11,57 | *23,41,87* | 9,59,87 | 1,23,54 | 11,33,54 | *22,65,92* | *46,07,79* |
| Assam - - - - | 13 | 73,36 | 57,49 | 3,49,42 | *4,85,27* | 1,51,71 | 72,80 | 2,55,94 | *4,80,45* | *9,65,72* |
| Bengal - - - - | 26 | 1,64,82 | 62,75 | 14,56,76 | *16,84,33* | 6,86,17 | 98,00 | 9,26,18 | *17,10,35* | *33,94,68* |
| Bihar and Orissa - - | 26 | 1,28,66 | 36,67 | 8,93,43 | *10,48,16* | 2,76,69 | 44,52 | 7,03,57 | *10,24,78* | *20,42,94* |
| United Provinces - | 48 | 8,58,78 | 73,53 | 26,49,79 | *35,82,10* | 9,65,36 | 48,97 | 25,70,42 | *35,84,75* | *71,66,85* |
| Punjab - - - | 34 | 9,70,92 | 1,58,83 | 22,84,21 | *34,13,96* | 6,44,35 | 29,00 | 27,02,52 | *33,75,87* | *67,89,83* |
| Madras - - - | 28 | 5,77,85 | 25,35 | 26,19,62 | *32,22,70* | 11,76,96 | 1,97,86 | 18,20,36 | *31,95,18* | *64,17,88* |
| Bombay - - - | 28 | 5,88,38 | 61,27 | 22,65,96 | *29,15,61* | 7,73,21 | 90,36 | 20,01,41 | *28,67,98* | *57,83,59* |
| Total - - | 271 | 41,29,61 | 6,77,29 | 1,57,77,94 | *2,05,84,84* | 62,80,27 | 7,26,68 | 1,33,50,18 | *2,03,57,13* | *4,09,41,97* |

## STATEMENT III.

### TRANSACTIONS AT THE HEAD OFFICES OF PRESIDENCY BANKS DURING 1912–13.

*(In Thousands of Rupees.)*

| | Number of Treasuries. | Receipts. | | | | Issues. | | | | Total Volume of Transactions. |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | |
| India - - - - | 1 | 26,91,00 | 1,12,40 | 10,65,12 | *38,68,52* | 2,60,39 | 2,46,24 | 33,53,80 | *38,60,43* | *77,28,95* |
| Bengal - - - - | 1 | 3,40,34 | 75,44 | 19,41,56 | *23,57,34* | 10,32,10 | 53,59 | 12,72,76 | *23,58,45* | *47,15,79* |
| Madras - - - - | 1 | 6,78,31 | 1,88,61 | 7,34,14 | *16,01,06* | 2,68,42 | 3,18 | 13.25,41 | *15,97,08* | *31,99,04* |
| Bombay - - - - | 1 | 9,69,72 | 1,11,28 | 26,97,39 | *37,78,39* | 6,11,46 | 1,76,26 | 29,65,12 | *37,52,84* | *75,31,23* |
| Total - - | 3 | 46,79,37 | 4,87,63 | 64,39,21 | *1,16,06,91* | 21,72,44 | 4,79,27 | 89,17,09 | *1,15,68,80* | *2,31,75,01* |

## STATEMENT IV.

### TRANSACTIONS AT RESERVE / REMITTANCE TREASURIES DURING THE YEAR 1912–13.

*(In Thousands of Rupees.)*

| Location. | Number of Treasury. | Receipts. | | | | Issues. | | | | Total Volume of Transactions. |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | |
| India - | 1 | 29,78,79 | — | 6,22,36 | 36,01,15 | 30,05,00 | — | 1,95,55 | 32,00,55 | 68,01,70 |
| Madras - | 1 | 10,09,18 | — | — | 10,09,18 | 8,03,98 | — | — | 8,03,98 | 18,13,16 |
| Bombay | 1 | 16,63,53 | — | 6,81,40 | 23,44,93 | 14,70,07 | — | 7,32,22 | 22,02,29 | 45,47,22 |
| Cawnpore | 1 | 11,31,43 | — | — | 11,31,43 | 11,47,87 | — | — | 11,47,87 | 22,79,30 |
| Lahore - | 1 | 10,48,22 | — | — | 10,48,22 | 10,49,74 | — | — | 10,49,74 | 20,97,96 |
| Total - | 5 | 78,31,15 | — | 13,03,76 | 91,34,91 | 74,76,66 | — | 9,27,77 | 84,04,43 | 1,75,39,34 |

## STATEMENT V.

STATEMENT SHOWING BY PROVINCES THE TOTAL VOLUME OF TRANSACTIONS AT "SMALL" TREASURIES DURING 1912–13.

*(In Thousands of Rupees.)*

| Province. | Number of Treasuries. | Receipts. | | | | Issues. | | | | Total Gross. |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | |
| SMALLER PROVINCES. | | | | | | | | | | |
| Assam | 11 | 56,18 | 23,78 | 2,28,89 | 3,08,85 | 92,05 | 46,85 | 1,69,32 | 3,08,22 | 6,17,07 |
| Central Provinces | 14 | 74,16 | 10 | 2,58,12 | 3,32,38 | 1,31,84 | 1.75 | 1,86,14 | 3,19.73 | 6,52,11 |
| Bihar and Orissa | 7 | 9,47 | 8,06 | 1,58,75 | 1,76,28 | 55,75 | 4,70 | 1,15,21 | 1,75,66 | 3,51,94 |
| LARGER PROVINCES. | | | | | | | | | | |
| Bengal | 5 | 5,87 | 3,13 | 1,42,16 | 1,51,16 | 79,65 | 5,70 | 69,46 | 1,54,81 | 3,05,97 |
| United Provinces | 9 | 51,38 | 21,10 | 1,92,31 | 2,64,79 | 69,68 | 85 | 1 92,35 | 2,63,18 | 5,28,27 |
| Punjab | 20 | 2,25,16 | 38,26 | 6,34,93 | 8,98,55 | 2,02,90 | 1,93 | 6,91,15 | 8,95,98 | 17,94,53 |
| Madras | 1 | 35 | — | 20,16 | 20,51 | 13,51 | -- | 7,79 | 28,30 | 41,81 |
| Bombay | 3 | 14,53 | 3,09 | 49,67 | 67,29 | 9,67 | — | 59,06 | 68,73 | 1,36,02 |
| OTHER PROVINCES. | | | | | | | | | | |
| India | 10 | 60,67 | 10,97 | 1.68,87 | 2,40,51 | 32,95 | 12,64 | 1,90,52 | 2,36,11 | 4,76,62 |
| Burma | 22 | 79,59 | 18,84 | 3,76,34 | 4,74,77 | 95,08 | 28,12 | 3,36,46 | 4,59,66 | 9,34,43 |
| Total | 102 | 5,77,36 | 1,27,53 | 22,30,20 | 29,35,09 | 7,86,08 | 1,02,54 | 20,18,06 | 29,03,68 | 58,38,77 |

## STATEMENT VI.

STATEMENT SHOWING BY PROVINCES THE TOTAL VOLUME OF TRANSACTIONS AT "MEDIUM" TREASURIES DURING 1912–13.

*(In Thousands of Rupees.)*

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| SMALLER PROVINCES. | | | | | | | | | | |
| Assam | 2 | 22,18 | 33,71 | 1,20,53 | 1,76,42 | 59,56 | 25,95 | 86,02 | 1,72,23 | 3,48,65 |
| Central Provinces | 6 | 58,96 | — | 3,51,19 | 4,10,15 | 2,21,25 | 7,89 | 1,60,81 | 3,89,95 | 8,00,10 |
| Bihar and Orissa | 13 | 1,18,59 | 78,61 | 6,44,68 | 8,41,88 | 2,20,94 | 39,82 | 5,88,36 | 8,49,12 | 16,91,00 |
| LARGER PROVINCES. | | | | | | | | | | |
| Bengal | 17 | 80,73 | 41,28 | 9,13,74 | 10,35,75 | 4,64,86 | 71,91 | 5,13,60 | 10,50,37 | 20,86,12 |
| United Provinces | 32 | 3,28,83 | 48,52 | 14,76,85 | 18,51,20 | 5,34,05 | 14,12 | 13,15,98 | 18,64,15 | 37,15,35 |
| Punjab | 10 | 3,39,14 | 48,39 | 7,25,47 | 11,13,50 | 2,27,19 | 10,44 | 8,54,74 | 10,92,37 | 22,05,87 |
| Madras | 15 | 1,53,03 | 38 | 9,10,75 | 10,64,16 | 2,88,83 | 53,40 | 7,12,42 | 10,54,65 | 21,18,81 |
| Bombay | 16 | 1,80,49 | 58,18 | 9,02,71 | 11,41,38 | 2,72,28 | 35,57 | 8,02,14 | 11,09,99 | 22,51,37 |
| OTHER PROVINCES. | | | | | | | | | | |
| India | 1 | 25,00 | — | 77,95 | 1,02,95 | 1,05 | — | 1,00,38 | 1,01,43 | 2,04,38 |
| Burma | 13 | 46,48 | 34,36 | 6,19,76 | 7,00,60 | 3,45,00 | 33,86 | 3,05,57 | 6,84,43 | 13,85,03 |
| Total | 125 | 13,50,43 | 3,43,93 | 67,43,63 | 84,37,99 | 26,35,11 | 2,92,96 | 54,40,62 | 83,68,69 | 1,68,06,68 |

## STATEMENT VII.

STATEMENT SHOWING BY PROVINCES THE TOTAL VOLUME OF TRANSACTIONS AT "LARGE" TREASURIES DURING 1912–13.

*(In Thousands of Rupees.)*

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| SMALLER PROVINCES. | | | | | | | | | | |
| Assam | — | — | — | — | — | — | — | — | — | — |
| Central Provinces | 2 | 1,18,68 | 11,79 | 1.36,34 | 2.66,81 | 59,41 | — | 1,82,52 | 2,41,93 | 5,08,74 |
| Bihar and Orissa | — | — | — | — | — | — | — | — | — | — |
| LARGER PROVINCES. | | | | | | | | | | |
| Bengal | 4 | 78,22 | 18,34 | 4,00,86 | 4,97,42 | 1,41,66 | 20,39 | 3,43,12 | 5,05,17 | 10,02.59 |
| United Provinces | 7 | 4,81,57 | 3,91 | 9,80,63 | 14,66,11 | 3,61,63 | 34,00 | 10,61,49 | 14,57,12 | 29,23.23 |
| Punjab | 4 | 4,06,62 | 71,48 | 9,23,81 | 14,01,91 | 2,14,26 | 16.63 | 11,56,63 | 13,87,52 | 27,89,43 |
| Madras | 12 | 4,24,45 | 24,97 | 16,88.67 | 21,38,03 | 8,74,62 | 1,44,46 | 11,00,15 | 21,19,23 | 42,57,26 |
| Bombay | 9 | 3,93,36 | — | 13,13,58 | 17,06,94 | 4,91,26 | 54,79 | 11,43,21 | 16,89,26 | 33,96,20 |
| OTHER PROVINCES. | | | | | | | | | | |
| India | 2 | 1,16,11 | 7,12 | 4,44,81 | 5,68,04 | 1,99.45 | 38 | 3,62,87 | 5,62,70 | 11,30,74 |
| Burma | 4 | 1,82.81 | 68,22 | 9,15,47 | 11,66,50 | 5,19,79 | 4,56,25 | 5,41,51 | 15,17,55 | 26,84,05 |
| Total | 44 | 22,01,82 | 2,05,83 | 68,04,11 | 92,11,76 | 28,62,08 | 7,25,90 | 58,91,50 | 94,80,48 | 1,86,92,24 |

## STATEMENT VIII.

STATEMENT SHOWING THE AVERAGE VOLUME OF TRANSACTIONS AT A "SMALL" TREASURY.

*(In Thousands of Rupees.)*

| | Receipts. | | | | Issues. | | | | Total Volume of Transactions. |
|---|---|---|---|---|---|---|---|---|---|
| | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Totals. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | |
| April | 24 | 3 | 1,47 | 1,74 | 72 | 11 | 1,13 | 1,96 | 3,70 |
| May | 14 | 5 | 1,67 | 1,86 | 77 | 7 | 1,09 | 1,93 | 3,79 |
| June | 21 | 5 | 1,56 | 1,82 | 60 | 3 | 1,05 | 1,68 | 3,50 |
| July | 10 | 5 | 1,54 | 1,69 | 60 | 2 | 1,11 | 1,73 | 3,42 |
| August | 26 | 4 | 1,09 | 1,39 | 56 | 11 | 1,03 | 1,70 | 3,09 |
| September | 30 | 7 | 1,23 | 1,60 | 25 | 19 | 1,01 | 1,45 | 3,05 |
| October | 44 | 3 | 1,03 | 1,50 | 25 | 10 | 1,02 | 1,37 | 2,87 |
| November | 17 | 3 | 1,07 | 1,27 | 45 | 4 | 1,01 | 1,50 | 2,77 |
| December | 15 | 2 | 1,33 | 1,50 | 46 | 4 | 1,08 | 1,58 | 3,08 |
| January | 25 | 2 | 2,81 | 3,08 | 1,41 | 5 | 1,31 | 2,77 | 5,85 |
| February | 14 | 2 | 2,84 | 3,00 | 88 | 4 | 1,27 | 2,19 | 5,19 |
| March | 15 | 3 | 2,47 | 2,65 | 1,63 | 5 | 1,72 | 3,40 | 6,05 |
| Total | 2,55 | 44 | 20,11 | 23,10 | 8,58 | 85 | 13,83 | 23,26 | 46,36 |

## STATEMENT IX.

STATEMENT SHOWING THE AVERAGE VOLUME OF TRANSACTIONS AT A "MEDIUM" TREASURY.

*(In Thousands of Rupees.)*

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| April | 93 | 4 | 3,79 | 4,76 | 1,22 | 19 | 3,34 | 4,75 | 9,51 |
| May | 1,26 | 4 | 4,58 | 5,88 | 1,93 | 8 | 3,54 | 5,55 | 11,43 |
| June | 76 | 12 | 4,38 | 5,26 | 2,68 | 5 | 3,32 | 6,05 | 11,31 |
| July | 73 | 16 | 3,73 | 4,62 | 1,90 | 8 | 3,58 | 5,56 | 10,18 |
| August | 88 | 15 | 2,84 | 3,87 | 97 | 7 | 3,18 | 4,22 | 8,09 |
| September | 97 | 11 | 3,01 | 4,09 | 70 | 12 | 3,07 | 3,89 | 7,98 |
| October | 96 | 9 | 2,70 | 3,75 | 38 | 14 | 3,33 | 3,85 | 7,60 |
| November | 1,10 | 9 | 3,41 | 4,60 | 1,75 | 6 | 2,83 | 4,64 | 9,24 |
| December | 64 | 10 | 4,01 | 4,75 | 1,05 | 9 | 3,10 | 4,24 | 8,99 |
| January | 78 | 8 | 5,06 | 5,92 | 1,95 | 17 | 3,60 | 5,72 | 11,64 |
| February | 53 | 6 | 5,16 | 5,75 | 79 | 33 | 3,47 | 4,59 | 10,34 |
| March | 1,32 | 8 | 6,98 | 8,38 | 3,04 | 54 | 5,43 | 9,01 | 17,39 |
| Total | 10,86 | 1,12 | 49,65 | 61,63 | 18,36 | 1,92 | 41,79 | 62,07 | 1,23,70 |

## STATEMENT X.

STATEMENT SHOWING THE AVERAGE VOLUME OF TRANSACTIONS AT A "LARGE" TREASURY.

*(In Thousands of Rupees.)*

| | Receipts. | | | | Issues. | | | | Total Volume of Transactions. |
|---|---|---|---|---|---|---|---|---|---|
| | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | |
| April | 3,52 | 58 | 10,72 | 14,82 | 4,39 | 92 | 9,98 | 15,29 | 30,11 |
| May | 2,85 | 50 | 11,71 | 15,06 | 5,49 | 53 | 9,13 | 15,15 | 30,21 |
| June | 2,42 | 47 | 12,43 | 15,32 | 6,28 | 50 | 9,03 | 15,81 | 31,13 |
| July | 3,16 | 52 | 12,62 | 16,30 | 5,40 | 83 | 10,16 | 16,39 | 32,69 |
| August | 3,52 | 57 | 9,14 | 13,23 | 3,48 | 88 | 9,43 | 13,79 | 27,02 |
| September | 3,68 | 51 | 9,85 | 14,04 | 3,50 | 70 | 9,50 | 13,70 | 27,74 |
| October | 3,27 | 45 | 9,86 | 13,58 | 3,76 | 66 | 9,53 | 13,95 | 27,53 |
| November | 3,72 | 59 | 9,57 | 13,88 | 4,19 | 28 | 8,89 | 13,36 | 27,24 |
| December | 4,03 | 49 | 8,94 | 13,46 | 3,48 | 1,17 | 8,65 | 13,30 | 26,76 |
| January | 3,03 | 90 | 16,17 | 20,10 | 7,80 | 80 | 10,24 | 18,84 | 38,94 |
| February | 3.13 | 72 | 15,78 | 19,63 | 5,58 | 1,17 | 10,50 | 17,25 | 36,88 |
| March | 5,65 | 1,00 | 17,68 | 24,33 | 7,73 | 1,44 | 14,80 | 23,97 | 48,30 |
| Total | 41,98 | 7,30 | 1,44,47 | 1,93,75 | 61,08 | 9,88 | 1,19,84 | 1,90,80 | 3,84,55 |

# STATEMENT XI.

## TRANSACTIONS FOR ABOUT A WEEK IN A "SMALL" TREASURY IN EACH PROVINCE.

*(In Thousands of Rupees.)*

| — | Central Provinces. | Burma. | Assam. | Bengal. | Bihar and Orissa. | United Provinces. | Punjab and North-West Frontier. | Madras. | Bombay. |
|---|---|---|---|---|---|---|---|---|---|
| KIST PERIOD | 20th to 25th Jan. 1913. | 22nd to 28th Feb. 1913. | 17th to 25th Feb. 1913. | 25th to 31st Mar. 1913. | Last week of Mar. 1913. | 2nd week of June 1912. | 15th to 20th July 1912. | 10th to 15th Mar. 1913. | Week ending 15th Feb. 1913. |
| Receipts— | | | | | | | | | |
| Remittances | — | — | — | — | 10 | — | — | — | — |
| Supply Bills and Telegraphic Transfers. | — | 1 | — | — | 4 | 3 | — | — | 2 |
| Other Transactions | 33 | 279 | 82 | 167 | 66 | 60 | 177 | 123 | 295 |
| Total | 33 | 280 | 82 | 167 | 80 | 63 | 177 | 123 | 297 |
| Issues— | | | | | | | | | |
| Remittances | 100 | 15 | 100 | 260 | 22 | 155 | — | 30 | — |
| Supply Bills and Telegraphic Transfers. | — | — | — | — | — | — | — | 5 | — |
| Other Transactions | 15 | 168 | 14 | 40 | 66 | 35 | 36 | 97 | 74 |
| Total | 115 | 183 | 114 | 300 | 88 | 190 | 36 | 132 | 74 |
| SLACK PERIOD | 16th to 21st Sept. 1912. | 8th to 15th Aug. 1912. | 15th to 22nd Aug. 1912. | 8th to 14th Nov. 1912. | 1st week of May. | 4th week of Sept. 1912. | 21st to 27th Sept. | 8th to 13th July 1912. | Week ending 30th Nov. 1912. |
| Receipts— | | | | | | | | | |
| Remittances | 10 | 20 | — | — | 6 | — | — | — | — |
| Supply Bills and Telegraphic Transfers. | — | 10 | 1 | — | — | — | — | — | — |
| Other Transactions | 18 | 71 | 19 | 28 | 36 | 23 | 21 | 42 | 39 |
| Total | 28 | 101 | 20 | 28 | 42 | 23 | 21 | 42 | 39 |
| Issues— | | | | | | | | | |
| Remittances | — | — | 26 | — | 150 | 47 | — | — | — |
| Supply Bills and Telegraphic Transfers. | — | — | — | — | — | — | — | — | — |
| Other Transactions | 9 | 81 | 6 | 11 | 30 | 7 | 36 | 55 | 40 |
| Total | 9 | 81 | 32 | 11 | 180 | 54 | 36 | 55 | 40 |
| NORMAL PERIOD | 6th to 11th Jan. 1913. | 1st to 7th Nov. 1912. | 12th to 23rd Dec. 1912. | 5th to 11th Aug. 1912. | 1st week of Aug. 1912. | 2nd week of Feb. 1913. | 1st 6 working days in Mar. | 11th to 16th Nov. 1912. | Week ending 31st July 1913. |
| Receipts— | | | | | | | | | |
| Remittances | — | 4 | — | — | — | — | 60 | — | — |
| Supply Bills and Telegraphic Transfers. | — | — | 1 | 75 | — | — | — | — | 1 |
| Other Transactions | 18 | 77 | 56 | 41 | 3 | 66 | 25 | 42 | 50 |
| Total | 18 | 81 | 57 | 116 | 3 | 66 | 85 | 42 | 51 |
| Issues— | | | | | | | | | |
| Remittances | — | — | 62 | — | — | 69 | — | — | 11 |
| Supply Bills and Telegraphic Transfers. | — | — | 3 | 35 | — | — | — | — | — |
| Other Transactions | 20 | 80 | 20 | 19 | 30 | 21 | 90 | 46 | 57 |
| Total | 20 | 80 | 85 | 54 | 30 | 90 | 90 | 46 | 68 |
| PERIOD OF HEAVY PAYMENTS. | 24th to 29th Mar. 1913. | 8th to 15th Mar. 1913. | 20th to 31st Mar. 1913. | 25th to 31st Mar. 1913. | Last week of Mar. 1913. | 4th week of Mar. 1913. | 1st 6 working days in Apr. | 17th to 25th Mar. | Week ending 31st Mar. |
| Receipts— | | | | | | | | | |
| Remittances | — | — | — | — | 10 | — | 100 | — | — |
| Supply Bills and Telegraphic Transfers. | — | 2 | — | — | 4 | — | — | — | — |
| Other Transactions | 18 | 167 | 119 | 167 | 66 | 53 | 24 | 371 | 169 |
| Total | 18 | 169 | 119 | 167 | 80 | 53 | 124 | 371 | 169 |
| Issues— | | | | | | | | | |
| Remittances | — | 200 | 40 | 260 | 22 | 35 | — | — | — |
| Supply Bills and Telegraphic Transfers. | — | — | — | — | — | — | — | — | — |
| Other Transactions | 18 | 141 | 38 | 40 | 66 | 42 | 99 | 179 | 187 |
| Total | 18 | 341 | 78 | 300 | 88 | 77 | 99 | 179 | 187 |

# STATEMENT XII.

TRANSACTIONS FOR ABOUT A WEEK IN A "MEDIUM" TREASURY IN EACH PROVINCE.

(*In Thousands of Rupees.*)

| — | Central Province. | Burma. | Assam. | Bengal. | Bihar and Orissa. | United Provinces. | Punjab and North-West Frontier Province. | Madras. | Bombay |
|---|---|---|---|---|---|---|---|---|---|
| KIST PERIOD | 17th to 22nd Feb. 1913. | 8th to 15th Mar. 1913. | 15th to 22nd Feb. 1913. | 25th to 31st Mar. 1913. | Last week of Mar. 1913. | 2nd week of June. | 15th to 21st June. | Mar. 1913. | Week ending 31st Mar. 1912. |
| Receipts— | | | | | | | | | |
| Remittances | — | — | — | — | — | — | — | 1,78 | 1,00 |
| Supply Bills and Telegraphic Transfers. | — | 1 | 3 | 19 | 6 | — | 2 | — | — |
| Other Transactions | 1,78 | 2,02 | 1,78 | 3,97 | 1,57 | 2,42 | 94 | 4,07 | 5,56 |
| Total | 1,78 | 2,03 | 1,81 | 4,16 | 1,63 | 2,42 | 96 | 5,85 | 6,56 |
| Issues— | | | | | | | | | |
| Remittances | — | — | 1,00 | 2,83 | 27 | 2,64 | — | 3,80 | 1,11 |
| Supply Bills and Telegraphic Transfers. | — | — | 16 | 30 | 1 | — | — | — | 1,68 |
| Other Transactions | 39 | 1,02 | 22 | 1,21 | 1,40 | 1,40 | — | 2,80 | 4,28 |
| Total | 39 | 1,02 | 1,38 | 4,34 | 1,68 | 4,04 | — | 6,60 | 7,07 |
| SLACK PERIOD | 16th to 21st Sept. 1912. | 23rd to 30th Sept. 1912. | 1st to 7th Aug. 1912. | 15th to 21st Nov. 1912. | 1st week of May. | 4th week of Sept. | 22nd to 29th Aug. | Dec. 1912. | Week ending 30th Sept. 1912. |
| Receipts— | | | | | | | | | |
| Remittances | — | 51 | 25 | 66 | — | — | — | 49 | — |
| Supply Bills and Telegraphic Transfers. | — | 15 | 4 | 1 | — | — | — | — | — |
| Other Transactions | 26 | 29 | 23 | 41 | 66 | 85 | 12 | 1,26 | 43 |
| Total | 26 | 95 | 52 | 1,08 | 66 | 85 | 12 | 1,75 | 43 |
| Issues— | | | | | | | | | |
| Remittances | — | — | 92 | — | — | 29 | — | 33 | 12 |
| Supply Bills and Telegraphic Transfers. | — | — | 32 | 13 | — | — | — | — | — |
| Other Transactions | 14 | 35 | 16 | 15 | 79 | 76 | 46 | 1,43 | 58 |
| Total | 14 | 35 | 1,40 | 28 | 79 | 1,05 | 46 | 1,76 | 70 |
| NORMAL PERIOD | 6th to 11th Jan. 1913. | 1st to 7th Nov. 1912. | 1st to 7th Nov. 1912. | 1st to 7th May 1912. | 1st week of August. | 2nd week of Feb. | 1st to 7th June. | Aug. 1912. | Week ending 22nd June 1912. |
| Receipts— | | | | | | | | | |
| Remittances | — | — | 69 | — | — | — | — | 42 | — |
| Supply Bills and Telegraphic Transfers. | — | 28 | 4 | — | 7 | — | — | — | — |
| Other Transactions | 55 | 85 | 53 | 52 | 1,05 | 88 | — | 1,61 | 1,00 |
| Total | 55 | 1,13 | 1,26 | 52 | 1,12 | 88 | — | 2,03 | 1,00 |
| Issues— | | | | | | | | | |
| Remittances | — | — | 1,00 | — | — | 35 | — | 90 | 18 |
| Supply Bills and Telegraphic Transfers. | — | — | 51 | 46 | — | — | — | — | — |
| Other Transactions | 50 | 1,27 | 33 | 77 | 82 | 1,15 | 1,22 | 1,49 | 1,02 |
| Total | 50 | 1,27 | 1,84 | 1,23 | 82 | 1,50 | 1,22 | 2,39 | 1,20 |
| PERIOD OF HEAVY PAYMENTS. | 24th to 29th Mar. 1913. | 8th to 15th Aug. 1912. | 8th to 15th Aug. 1912. | 25th to 31st Mar. 1913. | Last week of Mar. 1913. | 4th week of Mar. | 1st to 7th Aug. | Mar. 1913. | Week ending 8th Mar. 1913. |
| Receipts— | | | | | | | | | |
| Remittances | — | 90 | 24 | — | — | 75 | — | 1,78 | 75 |
| Supply Bills and Telegraphic Transfers. | — | 3 | 2 | 19 | 6 | 3 | 3 | — | — |
| Other Transactions | 50 | 33 | 1,56 | 3,97 | 1,57 | 97 | 42 | 4,07 | 3,18 |
| Total | 50 | 1,26 | 1,82 | 4,16 | 1,63 | 1,75 | 45 | 5,85 | 3,93 |
| Issues— | | | | | | | | | |
| Remittances | — | — | 50 | 2,83 | 27 | 74 | — | 3,80 | 1,20 |
| Supply Bills and Telegraphic Transfers. | — | — | 54 | 30 | 1 | — | — | — | 80 |
| Other Transactions | 1,38 | 1,51 | 1,38 | 1,21 | 1,40 | 2,44 | 2,12 | 2,80 | 3,09 |
| Total | 1,38 | 1,51 | 2,42 | 4,34 | 1,68 | 3,18 | 2,12 | 6,60 | 5,09 |

## STATEMENT XIII.

TRANSACTIONS FOR ABOUT A WEEK IN AN AVERAGE "LARGE" TREASURY IN EACH PROVINCE.

(*In Thousands of Rupees.*)

| — | Central Provinces. | Burma. | Assam. | Bengal. | Bihar and Orissa. | United Provinces. | Punjab and North-West Frontier Province. | Madras. | Bombay. |
|---|---|---|---|---|---|---|---|---|---|
| KIST PERIOD | Jan. and Feb. | Mar. | Mar. and May. | Feb. and Mar. | Last week of Mar. and 1st week of Nov. | 2nd week of June. | Jan. and July. | Jan. and Mar. | |
| Receipts— | | | | | | | | | |
| Remittances | 75 | — | — | 29 | 8 | 21 | 3,61 | 1,38 | 2,50 |
| Supply Bills and Telegraphic Transfers. | 20 | 74 | 45 | 21 | 14 | — | 16 | — | — |
| Other Transactions | 6,02 | 5,85 | 2,02 | 6,07 | 5,89 | 4,81 | 8,24 | 15,86 | 6,05 |
| Total | 6,97 | 6,59 | 2,47 | 6,57 | 6,11 | 5,02 | 12,01 | 17,24 | 8,55 |
| Issues— | | | | | | | | | |
| Remittances | 1,33 | 1,75 | 56 | 3,15 | 86 | 1,39 | 4,35 | 3,95 | 1,70 |
| Supply Bills and Telegraphic Transfers. | — | — | — | 7 | 5 | 14 | 14 | 2,34 | 24 |
| Other Transactions | 1,13 | 1,11 | 1,59 | 3,04 | 2,24 | 3,71 | 4,12 | 6,78 | 5,96 |
| Total | 2,46 | 2,86 | 2,15 | 6,26 | 3,15 | 5,24 | 8,64 | 13,07 | 7,90 |
| SLACK PERIOD | Sept. and Nov. | Apr., July, and Aug. | Apr., July, and Dec. | May, Aug., and Nov. | 1st and 4th week of May. | 4th week of Sept. | Aug., Sept., and Nov. | Sept. and Nov. | June, Nov. and Sept. |
| Receipts— | | | | | | | | | |
| Remittances | 43 | 5 | 16 | — | — | 1,07 | 97 | 28 | 2,81 |
| Supply Bills and Telegraphic Transfers. | — | 27 | 38 | 9 | 16 | — | 15 | — | — |
| Other Transactions | 98 | 79 | 84 | 2,17 | 62 | 2,88 | 91 | 3,47 | 3,14 |
| Total | 1,41 | 1,11 | 1,38 | 2,26 | 78 | 3,95 | 2,03 | 3,75 | 5,95 |
| Issues— | | | | | | | | | |
| Remittances | 3,39 | 44 | 17 | — | 59 | 1,56 | 29 | 61 | — |
| Supply Bills and Telegraphic Transfers. | — | 22 | — | 7 | — | 3 | 4 | 4 | 16 |
| Other Transactions | 1,04 | 76 | 1,03 | 2,07 | 1,73 | 2,04 | 1,10 | 3,05 | 3,90 |
| Total | 4,43 | 1,42 | 1,20 | 2,14 | 2,52 | 3,63 | 1,43 | 3,70 | 4,06 |
| NORMAL PERIOD | Jan. | Sept. to Nov. | June, July, and Sept. | May, Oct., and Nov. | 1st week of Aug. | 2nd week of Feb. | Aug. and Oct. | July, Aug., and Oct. | June, July, and Aug. |
| Receipts— | | | | | | | | | |
| Remittances | 19 | — | 67 | 17 | 58 | 68 | 67 | 1,67 | 3,67 |
| Supply Bills and Telegraphic Transfers. | 8 | 1,40 | 31 | 10 | 42 | 4 | 21 | — | — |
| Other Transactions | 1,57 | 1,47 | 1,00 | 2,46 | 85 | 4,33 | 2,47 | 3,66 | 6,08 |
| Total | 1,84 | 2,87 | 1,98 | 2,76 | 1,85 | 5,02 | 3,35 | 5,33 | 9,75 |
| Issues— | | | | | | | | | |
| Remittances | 27 | 75 | — | 44 | — | 1,36 | — | 3,53 | — |
| Supply Bills and Telegraphic Transfers. | — | — | 67 | 12 | 1 | 6 | 9 | 8 | 30 |
| Other Transactions | 2,16 | 99 | 1,21 | 2,32 | 1,56 | 3,53 | 2,72 | 1,81 | 5,58 |
| Total | 2,43 | 1,74 | 1,88 | 2,88 | 1,57 | 4,95 | 2,81 | 5,44 | 5,88 |
| PERIOD OF HEAVY PAYMENTS. | Last week of Mar. | Last week of Mar. | Mar. and Oct. | Mar. and Oct. | Last week of Mar. | 4th week of Mar. | Mar. and July. | Jan. and Mar. | Mar. |
| Receipts— | | | | | | | | | |
| Remittances | 2,93 | 7 | — | — | 20 | 2,64 | 3,50 | 1,38 | — |
| Supply Bills and Telegraphic Transfers. | 5 | 40 | 72 | 23 | 15 | — | 26 | — | — |
| Other Transactions | 1,99 | 3,97 | 1,86 | 5,59 | 4,55 | 5,16 | 2,95 | 16,44 | 8,87 |
| Total | 4,97 | 4,44 | 2,58 | 5,82 | 4,90 | 7,80 | 6,71 | 17,82 | 8,87 |
| Issues— | | | | | | | | | |
| Remittances | 7 | 1,50 | 55 | 4,68 | 88 | 2,95 | 2,32 | 4,23 | 5,00 |
| Supply Bills and Telegraphic Transfers. | — | 1 | 82 | 89 | 5 | 10 | 10 | 2,41 | 22 |
| Other Transactions | 3,32 | 2,95 | 2,32 | 3,85 | 2,68 | 4,77 | 6,92 | 7,86 | 6,09 |
| Total | 3,39 | 4,46 | 3,69 | 9,42 | 3,61 | 7,82 | 9,34 | 14,50 | 11,31 |

## STATEMENT XIV.

### TRANSACTIONS AT THE PRESIDENCY BANKS DURING THE YEAR 1912–13.

*(In Thousands of Rupees.)*

| Month. | Receipts. | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Bank of Bengal. | | | | Bank of Madras. | | | | Bank of Bombay. | | | | Total of Presidency Banks. | | | |
| | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. |
| April | 1,90,94 | 39,94 | 2,46,94 | 4,77,82 | 1,04,00 | 28,06 | 61,19 | 1,93,25 | 60,61 | 9,11 | 2,18,54 | 2,88,26 | 3,55,55 | 77,11 | 5,26,67 | 9,99,33 |
| May | 1,70,81 | 4,12 | 2,85,65 | 4,60,58 | 38,76 | 12,25 | 63,26 | 1,14,27 | 35,93 | 3,25 | 2,24,73 | 2,63,91 | 2,45,50 | 19,62 | 5,73,64 | 8,38,76 |
| June | 1,65,80 | 3,37 | 2,25,73 | 3,94,90 | 43,32 | 6,63 | 58,68 | 1,08,63 | 37,28 | 3,33 | 2,13,15 | 2,53,76 | 2,46,40 | 13,33 | 4,97,56 | 7,57,29 |
| July | 2,64,73 | 10,21 | 2,73,37 | 5,48,31 | 51,24 | 7,87 | 59,31 | 1,18,42 | 57,49 | 9,50 | 4,35,72 | 5,02,71 | 3,73,46 | 27,58 | 7,68,40 | 11,69,44 |
| August | 2,34,75 | 19,73 | 2,62,49 | 5,16,97 | 20,71 | 4,21 | 59,61 | 84,53 | 8,32 | 4,00 | 2,56,21 | 2,68,53 | 2,63,78 | 27,94 | 5,78,31 | 8,70,03 |
| September | 2,85,51 | 14,02 | 2,67,23 | 5,66,76 | 29,49 | 2,50 | 57,71 | 89,70 | 40,76 | 9,60 | 1,58,32 | 2,08,68 | 3,55,76 | 26,12 | 4,83,26 | 8,65,14 |
| October | 2,58,40 | 6,33 | 2,56,97 | 5,21,70 | 28,49 | 6,86 | 55,22 | 90,57 | 47,63 | 12,10 | 2,02,67 | 2,62,40 | 3,34,52 | 25,29 | 5,14,86 | 8,74,67 |
| November | 2,43,30 | 5,77 | 2,31,80 | 4,80,87 | 56,08 | 2,09 | 57,44 | 1,15,61 | 62,65 | 7,55 | 1,75,15 | 2,45,35 | 3,62,03 | 15,41 | 4,64,39 | 8,41,83 |
| December | 2,92,28 | 97 | 2,34,80 | 5,28,05 | 67,32 | 30,19 | 54,39 | 1,51,90 | 2,29,30 | 11,34 | 1,87,71 | 4,28,35 | 5,88,90 | 42,50 | 4,76,90 | 11,08,30 |
| January | 3,58,66 | 7,05 | 2,51,66 | 6,17,37 | 53,16 | 21,44 | 65,48 | 1,40,08 | 1,59,65 | 9,30 | 2,09,13 | 3,78,08 | 5,71,47 | 37,79 | 5,26,27 | 11,35,53 |
| February | 3,70,75 | 5,40 | 2,33,29 | 6,09,44 | 70,53 | 30,09 | 68,23 | 1,68,85 | 1,16,40 | 8,72 | 2,10,01 | 3,35,13 | 5,57,68 | 44,21 | 5,11,53 | 11,13,42 |
| March | 1,95,41 | 70,93 | 2,36,75 | 5,03,09 | 1,15,20 | 36,32 | 74,63 | 2,26,15 | 1,13,70 | 23,48 | 2,06,05 | 3,43,23 | 4,24,31 | 1,30,73 | 5,17,43 | 10,72,47 |
| Total | 30,31,34 | 1,87,84 | 30,06,68 | 62,25,86 | 6,78,30 | 1,88,51 | 7,35,15 | 16,01,96 | 9,69,72 | 1,11,28 | 26,97,39 | 37,78,39 | 46,79,36 | 4,87,63 | 64,39,22 | 1,16,06,21 |
| | Issues. | | | | | | | | | | | | | | | |
| April | 1,49,57 | 20,92 | 3,01,99 | 4,72,48 | 84,41 | 12 | 1,22,80 | 2,07,22 | 35,27 | 14,12 | 2,50,80 | 3,00,19 | 2,69,25 | 35,05 | 6,75,59 | 9,79,89 |
| May | 1,16,26 | 20,48 | 3,25,67 | 4,62,41 | 18,62 | 1,01 | 96,17 | 1,15,80 | 28,64 | 9,15 | 2,25,92 | 2,63,71 | 1,63,52 | 30,64 | 6,47,76 | 8,41,92 |
| June | 1,11,13 | 13,89 | 2,61,75 | 3,86,77 | 22,15 | 62 | 83,05 | 1,05,82 | 48,79 | 7,48 | 1,72,75 | 2,29,02 | 1,82,07 | 21,99 | 5,17,55 | 7,21,61 |
| July | 1,31,24 | 29,11 | 3,93,60 | 5,53,95 | 5,84 | 36 | 1,04,74 | 1,10,94 | 1,76,75 | 19,28 | 2,03,82 | 3,99,85 | 3,13,83 | 48,75 | 7,02,16 | 10,64,74 |
| August | 1,26,83 | 39,46 | 3,49,22 | 5,15,51 | 5,29 | 3 | 84,76 | 90,08 | 1,91,68 | 17,59 | 1,69,31 | 3,78,58 | 3,23,80 | 57,08 | 6,03,29 | 9,84,17 |
| September | 1,50,35 | 46,11 | 3,66,53 | 5,62,99 | 10,60 | 27 | 79,45 | 90,32 | 38,53 | 7,97 | 1,68,24 | 2,14,74 | 1,99,48 | 54,35 | 6,14,22 | 8,68,05 |
| October | 95,63 | 38,39 | 3,95,01 | 5,29,03 | 16,16 | 1 | 73,41 | 89,58 | 46,45 | 6,91 | 2,08,65 | 2,62,01 | 1,58,24 | 45,31 | 6,77,07 | 8,80,62 |
| November | 88,16 | 21,34 | 3,73,55 | 4,83,05 | 10,88 | 22 | 98,91 | 1,10,01 | 14,25 | 6,65 | 2,34,13 | 2,55,03 | 1,13,29 | 28,21 | 7,06,59 | 8,48,09 |
| December | 50,14 | 20,33 | 4,50,74 | 5,21,21 | 20,80 | 58 | 1,31,79 | 1,53,17 | 12,80 | 4,61 | 4,24,52 | 4,41,93 | 83,74 | 25,52 | 10,07,05 | 11,16,31 |
| January | 78,63 | 11,63 | 5,28,51 | 6,18,77 | 8,96 | — | 1,32,97 | 1,41,93 | 9,87 | 4,51 | 3,45,58 | 3,59,96 | 97,46 | 16,14 | 10,07,06 | 11,20,66 |
| February | 64,30 | 15,45 | 5,36,00 | 6,15,75 | 23,60 | 2 | 1,49,11 | 1,72,73 | 5,07 | 6,12 | 3,05,46 | 3,16,65 | 92,97 | 21,59 | 9,90,57 | 11,05,13 |
| March | 1,30,23 | 22,73 | 3,44,00 | 4,96,96 | 41,18 | 6 | 1,68,24 | 2,09,48 | 3,36 | 71,87 | 2,55,94 | 3,31,17 | 1,74,77 | 94,66 | 7,68,18 | 10,37,61 |
| Total | 12,92,47 | 2,99,84 | 46,26,57 | 62,18,88 | 2,68,49 | 3,19 | 13,25,40 | 15,97,08 | 6,11,46 | 1,76,26 | 29,65,12 | 37,52,84 | 21,72,42 | 4,79,29 | 89,17,09 | 1,15,68,80 |

## STATEMENT XV.

### TRANSACTIONS AT THE RESERVE / REMITTANCE TREASURIES DURING THE YEAR 1912-13.

*(In Thousands of Rupees.)*

| Month. | Receipts. | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Reserve Treasury at Calcutta. | | | | Reserve Treasury at Madras. | | | | Reserve Treasury at Bombay. | | | | Remittance Treasury at Cawnpore. | | | | Remittance Treasury at Lahore. | | | | Total Transactions. | | | |
| | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. | Remittances. | Supply Bills and Telegraphic Transfers. | Other Transactions. | Total. |
| April | 3,09,20 | — | 40 | 3,09,60 | 1,16,20 | — | — | 1,16,20 | 72,93 | — | 20 | 73,13 | 1,26,91 | — | — | 1,26,91 | 1,10,33 | — | — | 1,10,33 | 7,35,57 | — | 60 | 7,36,17 |
| May | 2,85,43 | — | 15 | 2,85,58 | 80,39 | — | — | 80,39 | 74,97 | — | 19 | 75,16 | 1,37,31 | — | — | 1,37,31 | 86,99 | — | — | 86,99 | 6,65,09 | — | 34 | 6,65,43 |
| June | 3,28,83 | — | 57 | 3,29,40 | 64,99 | — | — | 64,99 | 1,29,91 | — | 21 | 1,30,12 | 1,61,09 | — | — | 1,61,09 | 1,08,02 | — | — | 1,08,02 | 7,92,84 | — | 78 | 7,93,62 |
| July | 2,24,88 | — | 3 | 2,24,91 | 35,16 | — | — | 35,16 | 2,46,42 | — | 9 | 2,46,51 | 38,30 | — | — | 38,30 | 1,52,56 | — | — | 1,52,56 | 6,97,32 | — | 12 | 6,97,44 |
| August | 76,83 | — | 75,08 | 1,51,91 | 35,24 | — | — | 35,24 | 2,41,07 | — | 1,42,58 | 3,83,65 | 79,97 | — | — | 79,97 | 57,53 | — | — | 57,53 | 4,90,64 | — | 2,17,66 | 7,08,30 |
| September | 84,50 | — | 66,06 | 1,50,56 | 40,35 | — | — | 40,35 | 1,13,06 | — | 1,21,73 | 2,34,79 | 58,25 | — | — | 58,25 | 59,44 | — | — | 59,44 | 3,55,60 | — | 1,87,79 | 5,43,39 |
| October | 1,11,41 | — | 54,98 | 1,66,39 | 42,55 | — | — | 42,55 | 2,22,04 | — | 1,26,73 | 3,48,77 | 77,63 | — | — | 77,63 | 92,35 | — | — | 92,35 | 5,45,98 | — | 1,81,71 | 7,27,69 |
| November | 2,02,13 | — | 3,07,53 | 5,09,66 | 38,46 | — | — | 38,46 | 96,35 | — | 60,08 | 1,56,43 | 99,40 | — | — | 99,40 | 86,80 | — | — | 86,80 | 5,23,14 | — | 3,67,61 | 8,90,75 |
| December | 2,17,16 | — | 60,12 | 2,77,28 | 1,73,07 | — | — | 1,73,07 | 60,57 | — | 1,35,31 | 1,95,88 | 1,06,96 | — | — | 1,06,96 | 92,28 | — | — | 92,28 | 6,50,04 | — | 1,95,43 | 8,45,47 |
| January | 3,75,11 | — | 56,68 | 4,31,79 | 1,12,64 | — | — | 1,12,64 | 1,26,78 | — | 94,09 | 2,20,87 | 1,23,39 | — | — | 1,23,39 | 74,12 | — | — | 74,12 | 8,12,04 | — | 1,50,77 | 9,62,81 |
| February | 2,14,59 | — | 50 | 2,15,09 | 1,29,01 | — | — | 1,29,01 | 1,53,33 | — | 13 | 1,53,46 | 34,86 | — | — | 34,86 | 72,14 | — | — | 72,14 | 6,03,93 | — | 63 | 6,04,56 |
| March | 5,48,72 | — | 25 | 5,48,97 | 1,41,12 | — | — | 1,41,12 | 1,26,10 | — | 6 | 1,26,16 | 87,36 | — | — | 87,36 | 55,66 | — | — | 55,66 | 9,58,96 | — | 31 | 9,59,27 |
| Total | 29,78,79 | — | 6,22,35 | 36,01,14 | 10,09,18 | — | — | 10,09,18 | 16,63,53 | — | 6,81,40 | 23,44,93 | 11,31,43 | — | — | 11,31,43 | 10,48,22 | — | — | 10,48,22 | 78,31,15 | — | 13,03,75 | 91,34,90 |
| | **Issues.** | | | | | | | | | | | | | | | | | | | | | | | |
| April | 2,98,13 | — | 6 | 2,98,19 | 1,27,95 | — | — | 1,27,95 | 1,35,80 | — | 1 | 1,35,81 | 1,22,30 | — | — | 1,22,30 | 1,09,29 | — | — | 1,09,29 | 7,93,47 | — | 7 | 7,93,54 |
| May | 1,45,67 | — | 2 | 1,45,69 | 32,23 | — | — | 32,23 | 56,32 | — | 1 | 56,33 | 1,57,00 | — | — | 1,57,00 | 93,22 | — | — | 93,22 | 4,84,44 | — | 3 | 4,84,47 |
| June | 1,16,65 | — | 1 | 1,16,66 | 51,22 | — | — | 51,22 | 74,07 | — | — | 74,07 | 1,48,23 | — | — | 1,48,23 | 84,63 | — | — | 84,63 | 4,74,80 | — | 1 | 4,74,81 |
| July | 1,71,74 | — | — | 1,71,74 | 67,89 | — | — | 67,89 | 1,17,38 | — | — | 1,17,38 | 37,71 | — | — | 37,71 | 1,61,85 | — | — | 1,61,85 | 5,56,57 | — | — | 5,56,57 |
| August | 1,98,94 | — | 1 | 1,98,95 | 35,95 | — | — | 35,95 | 46,10 | — | — | 46,10 | 76,34 | — | — | 76,34 | 49,68 | — | — | 49,68 | 4,07,01 | — | 1 | 4,07,02 |
| September | 2,40,36 | — | 2 | 2,40,38 | 33,81 | — | — | 33,81 | 63,71 | — | 24,86 | 88,57 | 62,59 | — | — | 62,59 | 80,32 | — | — | 80,32 | 4,80,79 | — | 24,88 | 5,05,67 |
| October | 3,66,88 | — | 6,03 | 3,72,91 | 34,91 | — | — | 34,91 | 84,27 | — | 3,47,36 | 4,31,63 | 82,32 | — | — | 82,32 | 87,71 | — | — | 87,71 | 6,56,09 | — | 3,53,39 | 10,09,48 |
| November | 3,08,17 | — | 50,85 | 3,59,02 | 76,05 | — | — | 76,05 | 99,17 | — | 54,00 | 1,53,17 | 1,05,00 | — | — | 1,05,00 | 86,60 | — | — | 86,60 | 6,74,99 | — | 1,04,85 | 7,79,84 |
| December | 3,24,47 | — | 39,31 | 3,63,78 | 1,07,72 | — | — | 1,07,72 | 3,57,35 | — | 38,80 | 3,96,15 | 1,06,14 | — | — | 1,06,14 | 89,25 | — | — | 89,25 | 9,84,93 | — | 78,11 | 10,63,04 |
| January | 3,26,34 | — | 77,34 | 4,03,68 | 67,83 | — | — | 67,83 | 1,92,51 | — | 79,20 | 2,71,71 | 1,15,42 | — | — | 1,15,42 | 63,31 | — | — | 63,31 | 7,65,41 | — | 1,56,54 | 9,21,95 |
| February | 3,33,24 | — | 3 | 3,33,27 | 63,75 | — | — | 63,75 | 1,34,13 | — | 60,02 | 1,94,15 | 45,16 | — | — | 45,16 | 60,41 | — | — | 60,41 | 6,36,69 | — | 60,05 | 6,96,74 |
| March | 1,74,41 | — | 21,87 | 1,96,28 | 1,04,67 | — | — | 1,04,67 | 1,09,26 | — | 1,27,96 | 2,37,22 | 89,66 | — | — | 89,66 | 83,47 | — | — | 83,47 | 5,61,47 | — | 1,49,83 | 7,11,30 |
| Total | 30,05,00 | — | 1,95,55 | 32,00,55 | 8,03,98 | — | — | 8,03,98 | 14,70,07 | — | 7,32,22 | 22,02,29 | 11,47,87 | — | — | 11,47,87 | 10,49,74 | — | — | 10,49,74 | 74,76,66 | — | 9,27,77 | 84,04,43 |

## STATEMENT XVI.

*In Thousands of Rupees.)*

| | Bank of Bengal, Calcutta. | Bank of Madras. | Bank of Bombay. | Reserve Treasury, Calcutta. | Reserve Treasury, Madras. | Reserve Treasury, Bombay. | Remittance Treasury, Cawnpore. | Remittance Treasury, Lahore. |
|---|---|---|---|---|---|---|---|---|
| PERIOD OF HEAVY RECEIPTS | 14th to 19th July. | 24th Feb. to 1st Mar. | 15th to 20th July. | 10th to 15th Mar. | 25th to 31st Jan. | 5th to 10th Aug. | 8th to 15th June. | 22nd to 27th July. |
| Receipts— | | | | | | | | |
| Remittances | 40,00 | 17,14 | 10,38 | 1,50,33 | 68,50 | 91,58 | 35,91 | 54,66 |
| Supply Bills and Telegraphic Transfers | — | 6,13 | 4,40 | — | — | — | — | — |
| Other Transactions | 2,74,54 | 24,92 | 2,42,88 | 8 | — | 5 | — | — |
| Total | 3,14,54 | 48,19 | 2,58,16 | 1,50,41 | 68,50 | 91,63 | 35,91 | 54,66 |
| Issues— | | | | | | | | |
| Remittances | 32 | 4,00 | 3,00 | 31,08 | 10,15 | 9,54 | 27,23 | 42,55 |
| Supply Bills and Telegraphic Transfers | 13,07 | — | 3,67 | ... | — | — | — | — |
| Other Transactions | 51,21 | 47,08 | 38,30 | 21,86 | — | — | — | — |
| Total | 65,10 | 51,08 | 50,97 | 52,94 | 10,15 | 9,54 | 27,23 | 42,55 |
| PERIOD OF HEAVY PAYMENTS | 20th to 25th Jan. | 24th to 31st Mar. | 16th to 21st Dec. | 1st to 7th Oct. | 16th to 23rd Dec. | 16th to 21st Dec. | 8th to 15th Feb. | 1st to 6th Apr. |
| Receipts— | | | | | | | | |
| Remittances | 04,00 | 43,10 | 1,12,29 | 19,75 | 15,13 | 12,21 | 17,15 | 75,59 |
| Supply Bills and Telegraphic Transfers | — | 9,51 | 3,79 | — | — | — | — | — |
| Other Transactions | 20,51 | 29,10 | 45,51 | 1 | — | 8 | — | — |
| Total | 1,24,51 | 81,71 | 1,61,59 | 19,76 | 15,13 | 12,29 | 17,15 | 75,59 |
| Issues— | | | | | | | | |
| Remittances | 18 | 3,00 | 31 | 1,27,30 | 55,13 | 1,21,48 | 8,59 | 54,61 |
| Supply Bills and Telegraphic Transfers | 1,46 | 6 | 78 | — | — | — | — | — |
| Other Transactions | 1,16,22 | 57,08 | 1,56,31 | 1 | — | 9,20 | — | — |
| Total | 1,17,36 | 60,14 | 1,56,40 | 1,27,31 | 55,13 | 1,30,68 | 8,59 | 54,61 |
| NORMAL PERIOD | 17th to 22nd June. | 1st to 6th July. | 23rd to 28th Sept. | 6th to 11th May. | 17th to 22nd June. | 17th to 22nd June. | 25th to 31st Mar. | 25th to 31st Mar. |
| Receipts— | | | | | | | | |
| Remittances | 43,07 | 8,82 | 43 | 16,88 | 14,41 | 29,65 | 36,25 | 20,78 |
| Supply Bills and Telegraphic Transfers | — | 2,61 | — | — | — | — | — | — |
| Other Transactions | 17,82 | 14,32 | 47,46 | 3 | — | 5 | — | — |
| Total | 60,89 | 25,75 | 48,09 | 16,91 | 14,41 | 29,70 | 36,25 | 20,78 |
| Issues— | | | | | | | | |
| Remittances | 20,23 | — | 2,13 | 41,07 | 13,42 | 18,76 | 34,82 | 21,51 |
| Supply Bills and Telegraphic Transfers | 1,18 | 5 | 1,22 | — | — | — | — | — |
| Other Transactions | 31,64 | 24,69 | 27,03 | — | — | — | — | — |
| Total | 53,05 | 24,74 | 30,38 | 41,07 | 13,42 | 18,76 | 34,82 | 21,51 |

# APPENDIX XLVI.

PAPERS RELATING TO THE RECEIPT BY THE GOVERNMENT OF INDIA OF GOLD OTHER THAN BRITISH GOLD COIN, HANDED IN BY MR. L. ABRAHAMS, C.B., ASSISTANT UNDER SECRETARY OF STATE FOR INDIA.

## No. 1.

Notification of the Government of India, No. 2,662 (Finance and Commerce), dated 26th June 1893.

The Governor-General in Council hereby announces that, until further orders, gold coins and gold bullion will be received by the mint masters of the Calcutta and Bombay Mints respectively in exchange for Government rupees, at the rate of 7·53344 grains troy of fine gold for one rupee, on the following conditions :—

(1.) Such coin or bullion must be fit for coinage.
(2.) The quantity tendered at one time must not be less than 50 tolas.
(3.) A charge of one-fourth per mille will be made on all gold coin or bullion which is melted or cut so as to render the same fit for receipt into the mint.
(4.) The mint master, on receipt of gold coin or bullion into the mint, shall grant to the proprietor a receipt which shall entitle him to a certificate from the mint and assay masters for the amount of rupees to be given in exchange for such coin or bullion payable at the General (Reserve) Treasury, Calcutta or Bombay. Such certificates shall be payable at the General Treasury after such lapse of time from the issue thereof as the Comptroller-General may fix from time to time.

## No. 2.

Notification of the Government of India, No. 2,664 (Finance and Commerce), dated 26th June 1893.

In exercise of the powers conferred by the Indian Paper Currency Act, 1882, as amended by the Indian Coinage and Paper Currency Act, 1893, and of all other powers enabling him in this behalf, the Governor-General in Council is pleased to direct that currency notes shall be issued by the Head Commissioner of Paper Currency, Calcutta, and by the Commissioner of Paper Currency, Bombay, on the requisition of the Comptroller-General, in exchange for gold coin or gold bullion, at the rate of one Government rupee for 7·53344 grains troy of fine gold. Sovereigns and half-sovereigns of current weight coined at any authorised Royal Mint in England or Australia shall be taken as the equivalent of fifteen rupees and of seven rupees and eight annas respectively.

## No. 3.

Letter from Government of India to the Secretary of State, No. 199, dated 8th June 1899.

My Lord,

Your Lordship is aware that, following on the closure of the mints to the receipt of silver from the public for coinage, we announced that we were

ready to receive gold from the public at a certain rate and on certain conditions. The announcement was made in the Notification in the Finance Department, No. 2662, dated the 26th June 1893, copy of which was forwarded to your Lordship with our Despatch No. 49 (Financial), dated the 17th February 1897. Under this Notification the gold tendered must be fit for coinage, and, in accordance with instructions issued by us, this condition is not considered to be satisfied if the gold is, on the average of the whole tender, of a lower fineness than 916·6 per mille, or if it is brittle.

2. It has been represented to us that the existence of the condition that the gold must be fit for coinage prevents the tender at our mints of the gold produced in the South Indian mines, which is, on an average, of a fineness approximating to 900 per mille. We have been aware that, with the rise of the rate of exchange to the level of 1*s.* 4*d.*, the agents of the mines have had under their consideration for some time past the expediency of tendering their gold at the mints and so relieving themselves of the trouble and expense involved in shipping it to England. We have now been formally addressed on the subject by Messrs. Best & Co. of Madras, who are the agents in India of the principal gold mines in Madras and Mysore, and we enclose copy of their letter. The firm request us to make an exception to our rules in the case of the Indian gold mines and to allow the gold from the mines to be accepted in the state in which it is now shipped to London.

3. It is possible that the companies may think it worth their while to refine the gold themselves, when the progress of time gives them confidence that the measures taken by the Government of India will have the effect of keeping the rate of exchange permanently steady at 1*s.* 4*d.* the rupee. Or it may be found more advantageous in the future, if refining is to be undertaken in this country, that it should be carried on at the Government Mints, and in this connection we now have the question of refining at the Bombay Mint under our consideration.

4. In the meantime if we decline to make any exception to the rules we have laid down, it seems clear that we cannot expect, at least for some time, that any portion of the gold produced in India will be tendered to us. We cannot reconcile ourselves to accept this prospect, for it is important that we should continue to accumulate as large a stock of gold as we can obtain, and with this object in view we ought to endeavour, if we can do so by any reasonable concession, to secure the tender at our mints of gold valued at about a million-and-a-half sterling annually which is now shipped to England from Bombay.

5. In our opinion it will be wise, in the case of gold produced at the Indian gold mines, to waive the condition that gold tendered must be fit for coinage, and to accept the gold in the condition in which it is now shipped. The Notification of 1893 was framed in view to the coinage of gold in India, and as there are no refineries in this country, and it was considered that the mints could not do such work, it was decided to require that gold should be accepted only if it was fit for coinage. It seems to us, however, unnecessary to maintain the restriction in regard to the gold of the Indian mines, and we do not see any sufficient reason for rejecting the gold which the Mining Companies would like to offer us. This gold, we may explain, though not fit to coin until it has been refined, is gold of a definite character, with a definite value determined by assay, and is as marketable a commodity as standard bars or (practically), as sovereigns. We should propose to take the gold and place it in the currency reserve, using it if and when necessary for shipment to London in the season of the year when the demand for Council Bills is reduced, until the time arrived when we could begin refining operations in view to coinage in our mints.

6. We trust that in these circumstances Your Lordship will approve our proposal to inform the Companies that we shall be prepared to accept their

gold in the condition in which they prepare it for shipment to England, and we should be glad, if Your Lordship concurs, to learn the acceptance of our proposal by telegram.

We have, &c.,
(Signed) CURZON OF KEDLESTON.
" W. S. A. LOCKHART.
" E. H. H. COLLEN.
" C. M. RIVAZ.
" C. E. DAWKINS.
" T. RALEIGH.

Enclosures to Despatch No. 199 of 1899.

No. G.L.B. 1—265, dated 25th May 1899.

From Messrs. Best and Co., Madras, to the Secretary to the Government of India, Finance and Commerce Department.

We are informed that the expressions "fit for coinage" and "unfit for coinage" used in the notification of your Department No. 2662, dated the 26th June 1893, and the rules laid down for the receipt of gold bullion and coin have been subject to some misinterpretation, and that, as a consequence, it has been directed that it should be understood that gold is to be rejected as not fit for coinage—

(*a*) if the gold tendered is, on the average of the whole tender, of a lower fineness than 916·6 per mille;
(*b*) if it is brittle; or
(*c*) if in the opinion of the Mint or Assay Masters the gold is unsuitable for coinage from any other cause.

We are the agents in India of all the principal gold mines in this Presidency, and in view of the possible introduction of a gold standard for India, we wish to know if Government are prepared to make any modification in the rules under which gold may be tendered at the mints which will allow of the production of the Kolar gold field being accepted in the state it is now shipped to London.

For the information of the Government of India we have the honour to enclose—

(1) a return to the 31st December last showing the total production of the four principal mines from the commencememt of milling, and
(2) a return of last year's production.

From these returns it will be noted that the average fineness of the bar gold produced is slightly over 900 milliemes, and its market value, based on an experience of fifteen years at an exchange of one shilling and four pence to the rupee, almost absolutely identical with the rate at which gold is now received by the mints, of one rupee for every 7·53344 grains fine.

In addition to being below standard fineness, the gold is liable to rejection on account of its being "unfit for coinage" by reason of the presence of silver and a certain percentage of the rarer metals. The cost of refining, however, is fully met by the value of the "partings" obtained, and we have therefore the honor to request that an exception may be made in the case of the production of the Kolar gold mines and the gold permitted to be received by the mints in the state it is now shipped to London

Further, it would be a convenience if the gold could be tendered in Madras, and we have therefore the honour to request, if the Government of India are prepared to modify their rules, special arrangements may be made for its acceptance here.

Total returns from commencement of milling to 31st December 1898.

| Mine. | Tons quartz crushed. | Tons tailings treated. | Ounces, bar gold, from quartz and tailings. | Average fineness of bar gold in milliemes. | Ounces, standard gold. | Amount realised. | Average rate obtained per ounce, standard. |
|---|---|---|---|---|---|---|---|
| | | | | | | £ s. d. | £ s. d. |
| Mysore - - | 598,536 | 461,200 | 876,550 | 920·3 | 880,633·682 | 3,424,888 1 5 | 3 17 10·02 |
| Champion† - | 343,474 | 203,744 | 475,939 | 896·6 | 465,530·288 | 1,812,822 11 1 | 3 17 10·58 |
| Ooregum - - | 399,315 | * | 524,348 | 882·6 | 504,843·566 | 1,966,730 8 1 | 3 17 10·97 |
| Nundydroog - | 264,178 | 116,676 | 324,383 | 880·2 | 311,469·816 | 1,214,264 -1 9 | 3 17 11·64 |
| | 1,602,803 | 781,620 | 2,201,220 | 900·5 | 2,161,877·352 | 8,418,705 2 4 | 3 17 10·51 |

* Not shown in annual report. † Return to 30th September 1898.

Returns for year ended 31st December 1898.

| Mine. | Tons quartz crushed. | Tons tailings treated. | Ounces, bar gold, from quartz and tailings. | Average fineness of bar gold. | Ounces, standard gold. | Amount realised. | Average rate obtained per ounce, standard. |
|---|---|---|---|---|---|---|---|
| | | | | | | £ s. d. | £ s. d. |
| Mysore - - | 87,155 | 63,860 | 159,374 | 921·2 | 160,165·639 | 623,269 13 10 | 3 17 9·94 |
| Champion‡ - - | 89,271 | 101,963 | 135,412 | 890·9 | 131,609·826 | 512,708 4 5 | 3 17 10·96 |
| Ooregum - - | 67,942 | 55,076 | 52,585 | 879·9 | 50,478·001 | 196,600 2 11 | 3 17 10·75 |
| Nundydroog - | 37,930 | 44,898 | 41,534 | 884·6 | 40,080·182 | 156,196 9 0 | 3 17 11·28 |
| | 282,298 | 265,797 | 388,905 | 901·2 | 382,333·048 | 1,488,774 10 2 | 3 17 10·54 |

‡ For year ending 30th September 1898.

## No. 4.

Despatch from Secretary of State to the Government of India, No. 134, dated 13th July 1899.

My Lord,

Having considered in Council the proposal made in your Excellency's letter, dated the 8th of June, No. 199, that you should accept gold raised from the Indian Gold Mines, and place it in your Currency Reserve, notwithstanding the fact that, owing to want of sufficient fineness, it is not in a condition fit for coinage, I signified to your Excellency my approval of the proposal in a telegram dated the 11th instant, as noted in the margin.§

§ *Secretary of State to Viceroy, Simla.* Your Financial Despatch, No. 199, 8th June. Gold Mining Companies. Proposal sanctioned.

I have, &c.,
GEORGE HAMILTON.

## No. 5.

Notification of the Government of India, No. 3,218A (Accounts and Finance), dated 14th July 1899.

No. 3,218A.—In modification of Notification No. 2,662, dated the 26th June 1893, the Governor-General in Council is pleased to remove, as regards gold produced at the Indian mines and tendered at the Bombay Mint by the agents of the mining companies, the restriction that it shall be fit for coinage, and to direct that it shall be received at the Mint in the condition in which it has hitherto been shipped for export.

## No. 6.

Telegram from the Secretary of State to the Viceroy, dated 18th January 1900.

In your Financial Despatch No. 199, dated 8th June 1899, mention is made of question whether Bombay Mint can undertake refining. I understand that when Indian Gold Mining Companies tender gold, Bombay Mint declines to pay additional sum for silver necessarily included. It has been represented to me that if refusal is maintained gold will be sent to England. Can you arrange so as to prevent this?

## No. 7.

Telegram from Viceroy to Secretary of State, dated 3rd February 1900.

Your telegram of 18th January. Gold tendered by Gold Mining Companies. Our present arrangement is to make no refining charge, and to pay the value of the fine gold only. The Companies' Agents in India are satisfied with this, and we think it the most convenient arrangement; but we are prepared to consider any proposals the Companies may make for paying them the value of the silver also, and imposing an adequate refining charge.

## No. 8.

Telegram from the Viceroy to the Secretary of State, dated 15th April 1900.

Finance Member of Council reports to me that owing to the continued accumulation of gold, and large demand for silver, very serious situation has arisen. Comptroller-General has not merely been obliged to refuse special silver demands in Calcutta, but has found his rupee currency insufficient to meet general public demands. Unpleasant instances have also been reported from provinces, as result of carefully pressing gold and notes on public, effect being to aggravate popular distrust and to increase demand for rupees. Treasury cash balance on 31st March is less than estimated by 52 lakhs. Finance Member of Council considers it absolutely necessary to take steps to relieve the present crisis. Coinage of silver already bought or on its way will be undertaken with all possible speed, and it is proposed to purchase additional 500,000*l.* of silver for similar use. These steps, however, will take time, and furnish no remedy for immediate trouble. The Finance Member of Council proposes to check demand to some extent by refusing to accept Japanese gold yens at Mint, and inasmuch as entire situation results from official undertaking to give 15 rupees for every sovereign tendered at Mint, and at Reserve Treasury, he proposes to withdraw this undertaking, giving reasonable notice in both cases. To the objections that such a step would savour of a reversal of policy, and that, if it be taken, and if sale of Council Bills continues to be restricted, Banks will be hampered by want of means of remittance, and trade will be seriously checked, he replies that the trade slack season is coming; that, though difficulty may be temporary, he cannot accept responsibility of acting on that supposition when credit of country is at stake. That he sees no reversal or failure of policy in declining to oblige public by giving silver for gold, so long as we are in a position to give gold for silver; but that credit must disappear if we are even temporarily unable to meet our financial obligations as regards cash notes. Being at a great distance, on tour, I am unable to appraise gravity of the crisis, or to consult directly with Finance Member of Council; but at his desire I submit proposals for your approval.

## No. 9.

Telegram from Secretary of State to Viceroy, dated 18th April 1900.

Your telegram of the 15th. Currency. I consider proposed measure undesirable, and hope you will consider very carefully before adopting it; but if you are finally convinced that pressure is really urgent, and that you cannot await coinage of more rupees, I will not withhold sanction. If you decide to act you should notify that, until more rupees can be coined, it is requisite to withdraw promise given in 1897, that till further notice rupees will be issued from Reserve Treasuries in exchange for sovereigns. You would continue to act under Notification of 1893, under which gold is received against Mint Certificates, Comptroller-General extending, if necessary, period after which such certificates would be payable. Better not discriminate against the yens. All gold coins other than sovereigns and half-sovereigns should be taken as bullion. As to your proposal to give reasonable notice, action should be prompt, since otherwise in a few days a great drain of rupees for gold must be expected. Do you wish me to buy more silver?

## No. 10.

Telegram from Viceroy to Secretary of State, dated 30th April 1900.

Situation continues critical, though Comptroller-General has not again been obliged to refuse rupees for notes. In North-West Provinces sovereigns are reported to have been at discount of three annas, four annas, currency notes of seven annas per cent. Total rupee balance of Currency Department amounts only to 406 lakhs, as compared with estimated requirements in paragraph 6, Despatch No. 421, of 14th December last. Since objections are entertained to refusal of silver in exchange for gold, we propose to place following restrictions upon influx of gold:—

1. Until opening of Gold Mint, decline to receive gold coins or bullion below standard fineness, as being unfit for coinage within the meaning of Notification of June 1893; but continue to accept bullion of Indian production and foreign consignments already shipped. This will exclude yens, which are under standard fineness, and which we are under no permanent obligation to receive. (*See* Proceedings No. 640 of November 1899.) They continue to flow in. Total value received to 15th April, 249 lakhs; since that date 76 lakhs received or shipped.
2. Substitute payment at 60 days for immediate payment of certificates, under Notification No. 2662 of 26th June 1893.

We also propose to continue purchase and coinage of silver until present difficulties have disappeared, and shall shortly address you upon the investment of profit upon coinage of silver as a reserve fund, to assist in withdrawal of rupees, should these become redundant. (*Vide* paragraph 60 of Currency Committee's Report.)

## No. 11.

Telegram from Viceroy to Secretary of State, dated 2nd May 1900.

Our telegram of 30th April. Currency. Please note that of the 406 lakhs mentioned as rupee balance of Currency Department, 237 lakhs are in Currency chest.

## No. 12.

Telegram from Secretary of State to Viceroy, Simla, dated 4th May 1900.

Your cypher telegram of 30th April. Currency. I agree to your proposals.

## No. 13.

Telegram from the Secretary to the Government of India, Finance and Commerce Department, to the Comptroller-General, dated 6th May 1900.

Please communicate to the Mint Masters and the Banks interested the following orders which will be subject to reconsideration when the Royal Proclamation establishing Gold Mint at Bombay issues :—

In the first place, the first condition of Notification No. 2662 of 26th June 1893, that gold must be fit for coinage, should be enforced, and gold should be rejected which is under standard fineness. Japanese gold yens, whose fineness is only 900, and other similar coins will accordingly be rejected in future. To this order there will be the following two exceptions :—First, the gold produce of the Indian mines will continue to be received under Notification No. 3218 of 14th July 1899; second, with reference to letter No. 4899 of 26th October 1899, Japanese gold yens and similar coins which are proved to have been shipped for India before 1st May will be received.

In the second place, you should, under the last sentence of the fourth condition of Notification No. 2662 of 26th June 1893, substitute for your existing order authorising immediate payment of the certificates a new order fixing 60 days.

## No. 14.

Telegram from Secretary of State to Viceroy, dated 21st June 1900.

Kolar Gold Mines complain that refusal to pay for gold tendered under 60 days from assay is inconsistent with pressure put on them to send to Mint all gold output during the year. If refusal is maintained they must cancel arrangements, which they took trouble to make at request of Government of India, and must ship gold to England. What are the facts? Can arrangements be made to meet difficulty?

## No. 15.

Telegram from Viceroy to Secretary of State, dated 2nd July 1900.

Your telegram of the 21st ultimo. Indian Gold. No pressure was put on Mines to send their gold to us. We know of no arrangement made at our request. Despatch follows.

## No. 16.

Telegram from Secretary of State to Viceroy, dated 5th July 1900.

Your telegram 2nd July. Indian Gold. Word "pressure" in my telegram of 21st June was used by me to describe shortly action recited by Companies, and was perhaps too strong. What Companies said was your Government manifested greatest desire to have their gold sent to Mint, and made important concessions to ensure this. As difficulty seems only temporary, till sufficient rupees are coined can you arrange so as to avoid forcing Companies to send output to England? Please reply as soon as possible.

## No. 17.

Telegram from the Viceroy to the Secretary of State, dated 7th July 1900.

Your telegram of the 5th July. Indian Gold. We were certainly glad last year to receive Indian gold, and accordingly, when Companies themselves approached us agreed to concession in Notification 3218, dated 14th July 1899, *vide* Accounts Proceedings July 1899, Nos. 510–517. Subsequently

the Companies asked for payment at Calcutta, Madras, or Bombay, at the option of the Company. We considered Companies' expectations were becoming unreasonable, but agreed to part payment at Madras, subject to Companies definitely engaging to tender gold for the whole 1900, a condition necessary to enable us to arrange for Madras payment. We began to act on this offer provisionally. Companies, after much delay, refused to guarantee deliveries beyond end of June, whereupon we terminated provisional agreement with effect from 1st May. Refusal of Companies to make out definite arrangements, and threats in correspondence to send gold home, show that no special arrangements, which must now be reversed, were made on the strength of our concessions. We cannot use gold bullion in India until coinage at Bombay begins. Until that is authorised, it is inexpedient to accumulate further bullion, whether Indian or Foreign, therefore we are strongly opposed to further concession.

## No. 18.

Letter from the Government of India to the Secretary of State for India, No. 229, dated 12th July 1900.

My Lord,

We have the honour to acknowledge the receipt of your Lordship's telegrams of the 21st June and the 5th July in which your Lordship asked us in effect if we could not make arrangements for the continued receipt at our Mints of the produce of the Indian gold mines, and modify our recent orders which are considered to practically compel the mines to send their output to England.

2. We have already informed your Lordship by our telegrams of the 2nd and 7th instant that we are strongly opposed to the grant of further concessions to the mines. We have not yet received the text of the representation submitted to your Lordship, and therefore cannot say exactly how far the attitude of the Government of India towards the mines has been correctly or incorrectly described. We gather from your Lordship's telegraphic summary that the mines allege that, on the strength of the concessions we allowed to them, they have made arrangements which it would now be inconvenient to reverse, and that the encouragement we gave them to send their gold to us was so exceptional as to amount almost to insistence or pressure. We consider that such allegations or anything approaching to such a statement of the facts would be devoid of foundation.

3. Under our Notification No. 2662, dated 26th June 1893, gold bullion will not be received at our mints unless "fit for coinage." Indian gold being below standard fineness is not "fit for coinage," and consequently till the issue of our Notification No. 3218-A, dated 14th July 1899, which removed this restriction, Indian gold could not be received at the mints. The concession allowed by this Notification was confined to the produce of the Indian mines and was so far exceptional. But neither its character nor the circumstances under which it was allowed justify the inference that we were prepared to go to any length to secure this gold. We made no advances to the mines. They asked for this concession, of their own motion, in Messrs. Best & Co.'s letter No. 265,* dated 25th May 1899, and we considered it reasonable to accede to their request. We were glad to get the gold at the time, as we had not then received the large stock of other gold we have since accumulated, and in the absence of gold of standard fineness the Indian gold could be used to supply its place. We were glad also to give some encouragement to a local industry.

* *Vide* A. Proceedings Accounts, July 1899, Nos. 510–517.

4. In the same letter Messrs. Best & Co. asked to be allowed to tender their gold at Madras where it is produced instead of at Bombay where our Mint

is situated, and where the gold had hitherto been sent for shipment. We considered this request unreasonable and rejected it.

5. More than five months elapsed before the mines took advantage of the Notification of the 14th July 1899. We took no steps to hasten their decision.

6. On the 5th January 1900, Mr. Lynn of Messrs. Best & Co., telegraphed:—

"First delivery Kolar gold will be made about 7th on understanding payment at par will be made this and future deliveries Calcutta, Bombay or Madras at our option. Please confirm by urgent wire."

And in a letter of the 8th January Mr. Lynn explained: We wish to receive payment for the gold at par at all or any of the Government Treasuries, so that our hands may not be tied to one market in making remittances home."

7. We could not agree to make any payments at Calcutta, as we have to meet heavy demands on our balances there. Sufficient balances are collected at Madras to render a definite and fairly permanent arrangement for payment there convenient to us. But we obviously could not give an unrestricted option, thus exposing our treasuries to unexpected demands, one month at Bombay and another at Madras, while perhaps in a third month the gold would not be tendered to us at all. Nor were we disposed to give Messrs. Best & Co. the facilities for operating on the internal exchanges which an unrestricted option as regards place of payment would have supplied. We therefore telegraphed as follows on the 15th January:—

"Government cannot make payment at Calcutta at all, but are prepared to give the option to be exercised once a year of receiving payment for all tenders in the year either wholly at Madras or wholly at Bombay or of receiving at Madras half or any other proportion that may be named for the year and the remainder at Bombay for all tenders. Please telegraph which of these alternatives you accept for the year 1900."

The mines agreed to receive eight lakhs monthly at Madras for four months certain, adding "remaining eight months not yet settled, but permanent continuance practically certain." On this we decided to act provisionally on the offer in our telegram of 15th January, and replied to Mr. Lynn in a telegram of 25th January 1900: "Arrangement accepted. . . . The arrangement will be in force during calendar year 1900." Messrs. Best & Co. neither took exception to this last sentence nor confirmed it. They ignored the stipulation for a one year's agreement in subsequent correspondence during January and February, their first reference to a continuance of tenders beyond the first four months of 1900 being contained in a letter of 7th March 1900. In this letter they requested that "some arrangement "may be made whereby the value of the silver found in the gold may be "allowed for," suggested a refining charge of $\frac{1}{16}$ per cent. and the return of the silver, and explained that "if when exchange rules below 1*s.* 4*d.* we "can rely on getting the gold refined and the gold and silver handed back to "us, the former in bars of suitable size and fineness for sale in the bazaar, we "feel confident that deliveries of Kolar gold will continue to be made." Meanwhile, in a letter of the 20th February 1900, they had already attempted to have the provisional arrangement modified in their favour by asking for an increase of the Madras payments by Rs. 30,000 per mensem, the produce of another mine. This request we refused.

8. Replying on the 30th March to Messrs. Best & Co.'s letter of the 7th March, we said that the question of establishing a refinery was still undecided, and that a refining charge of $\frac{1}{16}$ per cent. (with the return of the silver) would probably be inadequate. We also incidentally reminded the agents of "the agreement which has been made with you that you will "deliver throughout the calendar year 1900, the produce of the Kolar Mines "at the Bombay Mint, and that the Government will make payment of eight

"lakhs monthly in Madras and the balance in Bombay." To this Messrs. Best & Co. replied on the 5th April—

> "We would point out that the arrangement was made for four months "certain only, and the continuance of deliveries from May onwards is "subject to further consideration."

A further telegram from us elicited the reply that "deliveries of gold will continue to end June certainly." It appeared to us to be time that some finality was reached in our negotiations with a firm which conducted business on these lines, and on the 26th April we telegraphed—

> "We cannot agree to the question being allowed to stand over any longer. Unless you agree before the end of this month to send the monthly output of gold to the Mint throughout the calendar year 1900, our agreement to make part payment at Madras will cease from the 1st of May."

Messrs. Best & Co. had by this time had a period of three months during which to consult their principals. But a further reference to England was required which only elicited the inconclusive reply "cannot guarantee deliveries beyond end June, but anticipate continuation." This was communicated to us on the 29th April, and on the 1st May we telegraphed to Messrs. Best & Co. that, as they had not accepted our conditions, payment for gold tendered under the Notification of 14th July 1899 would in future be made wholly at Bombay. This left us free to defer payments to tenderers of Indian gold as well as payments to other tenderers, and the Indian mines consequently came within the scope of the orders which we issued a few days later directing that deferred instead of immediate payment should be made for all gold bullion tendered at our Mints.

9. We need only briefly refer to the later correspondence. It has been implied that it will cause the mines inconvenience to restore their previous arrangements for sending gold to England. We think this is disproved by the fact that the mines refused to commit themselves to a definite arrangement, and that at the end of April they were still contemplating the possibility of sending their gold to England from the beginning of July. But we may mention in confirmation of this view that on the 27th April Messrs. Best & Co., in acknowledging the receipt of our telegram of the 26th April, wrote—

> "We are unable to give you the assurance required and coupled with your refusal to pay for silver and the present low level of exchange, it is not at all improbable that shipping to London will be again resorted to."

Again, in acknowledging the receipt of our telegram of the 1st May, Messrs. Best & Co. wrote on the 2nd May—

> "We have passed on the contents to London, but until the stability of exchange is assured, we fail to see how the directors can, in the interest of the shareholders, give the guarantee asked for."

It is obvious from the representations made to Your Lordship in England that Messrs. Best & Co. were misinformed in assuming that their principals were indifferent in regard to the destination of the gold, as they have been throughout in supposing that the Government of India were eager that it should be tendered at the Mints. But we cannot suppose that the Indian agents of the mines were left without information as to the arrangements made for the disposal of the gold, and if the renewal of shipments to England is an operation which will cause serious inconvenience, it would have been impossible for the agents to write as if it might be advisable in any case for the gold to be again sent to England.

10. We have throughout been willing for the sake of the mines to offer reasonable concessions. We have at no time, even when desiring in the interests of Government to receive the gold, shown a readiness to be coerced into the grant of concessions which were in themselves unreasonable. The position has now changed. The heavy demands on our cash balances arising chiefly from famine have all to be met in rupees, while the accumulation of

gold in our currency reserve, though the pressure has been materially relieved by recent heavy coinage, continues to make the maintenance of the convertibility of the note issue a matter of difficulty and anxiety. We have for the present abundance of coined gold to send to England if required, and there must still be much delay before the Branch Mint can be established at Bombay and refining operations commenced. Under these circumstances we are unwilling for some time to renew the inducements originally offered for the tender of gold bullion at our Mints; and we see no advantage in discriminating in favour of gold bullion produced in India, and conceive that we are under no obligation to so discriminate. We hope at some future time to resort again to immediate payments both for imported and for Indian bullion. We shall then again consider, if the mines approach us on the subject, whether we can renew the offer of part payment at Madras. But if the offer should be renewed, a question which will depend upon the circumstances of the time, it should, we consider, be renewed upon the conditions we laid down in January last, and should not be brought into effect till those conditions have been formally accepted.

We have, &c.,

(Signed) CURZON OF KEDLESTON.
„ E. H. H. COLLEN.
„ A. C. TREVOR.
„ C. M. RIVAZ.
„ T. RALEIGH.
„ E. FG. LAW.

## No. 19.

Despatch from Secretary of State to the Government of India, No. 161 (Financial), dated 13th September 1900.

My Lord,

With reference to the telegraphic correspondence noted in the margin,* respecting the receipt by your Government of the produce of the Indian Gold mines, and in reply to the Letter dated the 12th of July, No. 229, the transactions that had taken place between your Government and the agents of the Mining Companies, I forward, for your information, a copy of the correspondence† in this country with Messrs. John Taylor and Sons, and the Chartered Bank of India, Australia, and China, and the National Bank of India, on the subject.

* To Viceroy, dated 21st June 1900.
From ditto, dated 2nd July 1900.
To ditto, dated 5th July 1900.
From ditto, dated 7th July 1900.

in which you explained at length

† From Messrs. Taylor, dated 17th January 1900.
From Chartered Bank, dated 18th January 1900.
To Messrs. Taylor, Chartered Bank, and Mr. Dunlop Best, dated 9th February 1900.
From Mr. Robert Campbell, dated 12th June 1900.
From ditto, dated 18th June 1900.
From Messrs. Taylor, dated 18th June 1900.
To ditto, dated 23rd August 1900.
From ditto, dated 27th August 1900.

I have, &c.,
GEORGE HAMILTON.

### Enclosure No. 1 referred to in No. 19.

6, Queen Street Place, London, E.C.,
17th January 1900.

Sir,

*Re* Sale of Gold to the Indian Mints.

We beg to bring to your notice the following facts:—

We act as managers to the several Companies scheduled at foot hereof, whose mines are situated at Kolar in the State of Mysore.

We have recently, on behalf of these Companies, made an arrangement for the sale of the bar gold produced at the mines to the National Bank of India in Bombay.

The gold bars contain a certain quantity of silver, and the arrangement made was that the National Bank of India should pay the Mining Companies for both the gold and silver contents of the bars, on the basis of the assay certificates of the Bombay Mint. The first parcel of gold for sale under this arrangement was deposited in the Bombay Mint on or about the 10th instant. We have, however, received a cable communication from the Bank stating that the Bombay Mint will not assay for silver, that they cannot separate the silver from the gold, that they have no refinery, and that they will pay for gold only.

We beg respectfully to point out to you that, in consequence of this, the Companies referred to will, we fear, without your official intervention to the contrary, suffer considerable injury through losing the value of the silver contained in the gold bars.

The total value of the silver contained in the gold produced from the mines during the past twelve months amounted to nearly 5,000*l*. The returns for the current year are estimated to exceed that sum, and if the silver be lost to the Companies the former practice of shipping the gold to London will in all probability have to be reverted to.

In view of the foregoing, and pending the establishment by the Government of a refinery capable of extracting the silver, we beg that you will afford us the favour of your influence in the matter, and you would greatly assist us if you could see your way to cable to the Bombay Mint to in future ascertain by assay the proportion of silver contained in the gold, and to include the value thereof in the certificates to be rendered to the National Bank of India.

Trusting to receive a favourable reply.

We are, &c.,
JOHN TAYLOR AND SONS.

The Secretary of State
for India.

Schedule of Mining Companies.

Balaghat Gold Mining Company, Limited.
Champion Reef Gold Mining Company of India, Limited.
Coromandel Gold Mining Company of India, Limited.
Gold Fields of Mysore, Limited.
Kempinkote Gold Field, Limited.
Mysore Gold Mining Company, Limited.
Mysore Reefs (Kangundy), Limited.
Nine Reefs Company, Limited.
Nundydroog Company, Limited.
Ooregum Gold Mining Company of India, Limited.
Oriental Gold Mining Company of India, Limited.
Road Block Gold Mining Company, Limited.
Yerrakonda Gold Mining Company, Limited.

Enclosure No. 2 referred to in No. 19.

Chartered Bank of India, Australia, and China,
Hatton Court, Threadneedle Street,
London, 18th January 1900.

My Lord.

I beg to inquire what are the conditions upon which gold can be tendered to the Bombay Mint, and what are the charges for refining gold as it is received from the Indian mines.

I have, &c.,
C. LEWIS, Manager.

The Secretary of State
for India.

Enclosure No. 3, referred to in No 19.

F 524.

India Office,
9th February 1900.

Gentlemen,
Sir,

With reference to—
Your letter of the 17th of January.
Your letter of the 18th of January.
Your conversation with the Financial Secretary at this Office,

respecting the question whether the gold produced at the Indian mines could be assayed at Bombay, I am directed by the Secretary of State for India to inform you that he has been in telegraphic communication with the Government of India on the subject.

The present arrangement is that no charge for refining is made, and that the value of the fine gold only is paid. Lord George Hamilton is informed that the Agents of the Mining Companies in India are satisfied with this plan, and the Government of India consider it to be the most convenient arrangement. If, however, the Companies desire to make any proposals for the payment to them of the value of the silver also, and the imposition of an adequate refining charge, the Government of India will take it into consideration.

I am, &c.,
A. GODLEY.

Messrs. John Taylor and Sons.
The Manager of the Chartered Bank of India, Australia, and China.
A. V. Dunlop Best, Esq.,
National Bank of India.

Enclosure No. 4, referred to in No. 19.

National Bank of India, Limited,
47, Threadneedle Street,
12th June 1900.

Dear Sir,

I should be obliged if you could kindly allow Mr. Dunlop Best and myself the favour of an interview early next week, either on Monday at any hour most convenient to youself or any day thereafter, to afford us an opportunity of placing before you our views in regard to the conditions recently imposed by the Government of India on the receipt of the Kolar gold at the Bombay Mint.

Mr. Best is the senior of Messrs. Best & Co., Madras, who act as agents in India for the Kolar Companies on whose behalf he is authorised to speak.

We shall be pleased to wait on you at the India Office at any time you may appoint.

I am, &c.,
ROBERT CAMPBELL,
General Manager.

Sir Henry Waterfield, K.C.S.I., C.B.

Enclosure No. 5, referred to in No. 19.

National Bank of India, Limited,
47, Threadneedle Street,
18th June 1900.

Dear Sir,

Referring to our conversation on the 13th, I now enclose a letter addressed to Lord George Hamilton by Messrs. John Taylor and Sons, the London agents of the Kolar Gold Mining Companies, in regard to the terms on which payment is now made for the Kolar gold tendered to the Bombay Mint.

I may mention that 110,000*l.* worth of gold is now held over in Bombay pending the Government's decision; and as a further larger amount will be reaching Bombay in a few days, all of which will be shipped home or

tendered to the Mint according as the Government may decide, we venture to hope that it may be convenient to his Lordship to give the matter his early consideration.

I am, &c.,
ROBERT CAMPBELL,
General Manger.

Sir Henry Waterfield, K.C.S.I., C.B.

Enclosure No. 6, referred to in No. 19.

6, Queen Street Place, London, E.C.,
18th June 1900.

My Lord,

We take the liberty of addressing you on behalf of the Kolar Gold Mining Companies, whose interests we represent, in regard to the change recently made by the Government of India in the terms of payment for the gold tendered by the Companies to the Bombay Mint.

Previous to December last the Companies had been in the habit of shipping their gold to London, but as the result of negotiations between their agents in India (Messrs. Best and Co., Madras) and the Indian Government, the Companies agreed to send their gold to the Mint in Bombay, under an arrangement come to between ourselves here and the National Bank of India.

Throughout the whole of these negotiations the Government manifested the greatest desire that the Companies should send their production to the Mint, and they made several important concessions in order to ensure this. Among others they agreed to transfer without charge eight lakhs of the proceeds monthly from Bombay to Madras, where the Companies' Indian expenditure lies, and these arrangements worked smoothly from December up to the end of April.

In the end of that month, however, the Government intimated that they would no longer remit any portion of the proceeds to Madras at par, unless the Companies undertook to send to the Mint their total output of gold up to the end of the present year. The Companies did not see their way to give an absolute pledge to that effect, although they stated that in all probability the gold would continue to be sent in. This, however, did not satisfy the Government, and the concession was withdrawn at the end of April.

The above clearly indicated the desire of the Government to secure the whole of the Indian gold for the Currency Department, and the Companies were consequently quite unprepared for the notification addressed to them only ten days afterwards, that the payment for their gold would till further notice be made by certificates due 60 days after assay. It is needless to point out the awkward position in which the Companies would have found themselves in face of such a notification, had they given the undertaking demanded of them by the Government only ten days before. The 60 days' term was afterwards modified to 30 days for the month of May, when the 60 days' rule was again reverted to, and that rule is now in force.

Should this method of paying for gold about 75 days after delivery be continued, the Companies will have no alternative but to cancel the arrangements they took a good deal of trouble to make to enable them to send their gold to the Indian Mint, and they must revert to their former practice of shipping it home, a practice which they may probably not be prepared again to depart from. In dealing here with imported gold the best terms can only be obtained from the refiners by customers who are in a position to send them gold regularly and not merely spasmodically, and after what has occurred the refiners may require some guarantee of continuity before replacing the Companies on the most favourable footing.

It seems scarcely consistent with the establishment of gold standard in India that gold sent to the Mint should only be accounted for two-and-a-half months after receipt. Such a rule would not be tolerated in this country for a day, and it would be impossible to exaggerate the alarm and indignation which such a proposal would excite.

We venture to submit that the Indian production of gold has a special claim to consideration at the hands of the Government. Unless driven out by measures such as we are now commenting on, Indian gold will remain in

the country to replenish the circulation, when the expense and loss of time might prevent imports from abroad, and it will hardly be disputed that it is better that the country's currency should be supplied from within itself than imported from outside. It appears, to say the least, a singular anomaly that gold produced in India should be penalised by harassing and oppressive conditions, while imports of English and Australian sovereigns are allowed to come in unhindered and are paid for immediately on delivery at the Mint.

We respectfully commend those remarks to your Lordship's consideration, in the hope that under the circumstances we have stated you may see fit to communicate with the Government of India, with a view of inducing them to reconsider their policy, and instruct the Bombay Mint to account for the Kolar gold as soon as it is assayed.

We are, &c.,
JOHN TAYLOR AND SONS.

The Secretary of State for India.

Enclosure No. 7, referred to in No. 19.

F. 3786. India Office,
Gentlemen, 23rd August 1900.

On the receipt of your letter of the 18th of June, respecting the terms of payment for gold tendered by the Kolar Gold Mining Companies to the Mint at Bombay, the Secretary of State telegraphed to the Viceroy on the subject; and His Excellency replied that a despatch would be sent, which has now been received.

The Government of India in May 1899 agreed to the arrangement proposed by Messrs. Best & Co. for the reception of the Indian gold, but felt themselves obliged to reject the proposal that the gold should be tendered at Madras. It was not until January 1900 that Messrs. Best & Co. availed themselves of the concession, and they then applied to be allowed to tender at any one of the three Presidency towns. Eventually they agreed to receive a payment of 8 lakhs monthly at Madras for four months certain, adding that the remaining eight months were "not yet settled, but permanent continuance practically certain." To this the Government of India replied that the arrangement was accepted, to be "in force during calendar year 1900." When, however, Messrs. Best & Co. were reminded on the 30th of March that an agreement had been made that they should deliver throughout that year the produce of the Kolar mines at the Bombay Mint, they pointed out "that the arrangement was made for four months certain only, and the "continuance of deliveries from May onwards is subject to further "consideration."

Being pressed for a definite arrangement, they, on the 29th of April, replied that they could not guarantee deliveries beyond June; and, therefore, on the 1st of May the Government informed them that payment for gold tendered under the Notification of the 14th of July 1899 would in future be made wholly at Bombay. Hence, when it became necessary shortly afterwards to defer payment for gold the produce of the Indian mines came under the same orders as were applicable to gold from other quarters.

Lord George Hamilton regrets that the measures which the Government of India was compelled to take, owing to the heavy demands for rupees arising from the famine and other causes, should have occasioned inconvenience to the owners of the Indian gold mines, as well as to other traders; and he trusts that it may not be long before the hope of the Government of India will be realised, that they may be in a position to resort again to immediate payment both for imported and for Indian gold bullion. In that case, the Government will be ready to consider applications regarding part of the payments being made at Madras.

I am, &c.,
A. GODLEY.

Messrs. John Taylor and Sons.

Enclosure No. 8, referred to in No. 19.

6, Queen's Street Place,
London, E.C., 27th August 1900.

Sir,

We beg to thank you for your letter of the 23rd instant, the contents of which have been carefully noted by us, and we shall be interested to learn when the Government of India are in a position to again resort to immediate payment for gold tendered to the Mint at Bombay.

We are, &c.,

JOHN TAYLOR AND SONS,

The Under Secretary of State
for India.

## No. 20.

Letter from the Government of India to the Secretary of State, No. 347, dated 27th September 1906.

Sir,

We have the honour to address you on the subject of the rules at present in force for the receipt of gold bullion at our mints.

2. In our notification No. 2662, dated the 26th June 1893, a copy of which was forwarded to your predecessor with the despatch of Lord Elgin's Government, No. 49 (Financial), dated 17th February 1897, we announced that we were ready to receive gold bullion from the public at a certain rate and under certain conditions, one of these being that the bullion must be fit for coinage. This condition was imposed as it was thought at the time that the mints would be unable to undertake refining operations. In 1899 however it was found that there would be no difficulty in refining the gold presented. We accordingly proposed in our Despatch No. 199, dated 8th June 1899, and Lord George Hamilton in his telegram dated the 11th July 1899 agreed, that the restriction that bullion presented should be fit for coinage might be removed in the case of gold produced at the Indian mines, and that such gold should be received at the mints in the condition in which it had hitherto been shipped for export. Effect was given to this decision in our notification No. 3218, dated 14th July 1899.

3. At the time when these notifications were issued we contemplated the possibility of eventually undertaking the coinage of gold in India, and the object of the latter notification was to attract to our mints the output of the Indian mines, which then amounted to about a million and a half sterling per annum. It was intended that such portion of this as might be received at our mints should be used for shipment to London to meet any deficiency in your Council bill sales, until the time arrived when we should be able to commence the refining and coinage of gold.

4. Circumstances have now changed. There is no longer any prospect of our undertaking, at any rate in the near future, the coinage of gold in India, and it will therefore be necessary to remit to England all the gold bullion that may be presented here. Under our present policy, however, we do not desire to accumulate gold in India for export to England but merely to hold such amount as may be required for use by the public. This should consequently be in the form not of bullion but of sovereigns. It may be added that the notification of 1899 has not resulted in any considerable portion of the Indian mines gold being presented at our mints, the receipts during the last five years being as follows:—

| | £ |
|---|---|
| 1901–02 | 1,000 |
| 1902–03 | *Nil.* |
| 1903–04 | 19,000 |
| 1904–05 | 39,000 |
| 1905–06 | 44,000 |

5. We therefore propose, with your approval, to withdraw the notifications of 1893 and 1899 under which we expressed our willingness to accept gold bullion at our mints. It is our intention to give to the public reasonable notice before doing so, though, as the above figures show, any inconvenience that may be caused to the Indian mines by the change will be inconsiderable.

We have, &c.,
MINTO.
A. T. ARUNDEL.
DENZIL IBBETSON.
H. E. RICHARDS.
E. N. BAKER.
C. H. SCOTT.
C. L. TUPPER.

## No. 21.

Despatch from the Secretary of State to the Government of India, No. 124 (Financial), dated 2nd November 1906.

My Lord,

I have considered in Council your Letter in the Finance Department, No. 347, of 27th September 1906, in which you propose to withdraw, on giving reasonable notice beforehand, the offer made in Government of India Notification No. 2662, dated 26th June 1893, and extended by subsequent Notification No. 3218, dated 14th July 1899, to receive gold bullion, subject to certain conditions, at the Indian Mints.

2. You observe that the offer was made in view of the contingency then contemplated, of the coinage of gold being eventually undertaken in India, and that the object of the second Notification was to attract more especially the produce of the Indian mines, amounting then to about 1,500,000*l.* per annum.

3. It was also intended that gold so drawn to the Mints should be available for shipment to London to meet any deficiency in the sale of Council Bills.

4. The proposed coinage of gold at Bombay has, however, been abandoned,* and the other considerations in view of which the Notifications of 1893 and 1899 were issued have, as you point out, ceased to be operative; moreover, the Notifications have failed to attract any considerable portion of the output of the Indian mines to the Mints. I therefore approve your proposal to withdraw those Notifications.

* Lord G. Hamilton's Financial Despatch, No. 25 of 1908, and previous correspondence.

I have, &c.,
JOHN MORLEY.

## No. 22.

Notification of the Government of India, No. 6908*a*, dated 11th December 1906.

*Receipt by the Mints of Calcutta and Bombay of Sovereigns and Half-Sovereigns only.*

In supersession of the notifications by the Government of India in the Financial Department, No. 2662, dated the 26th June 1893, and No. 3218*a*, dated the 14th July 1899, which are hereby cancelled, the Governor-General in Council is pleased to direct that, with effect from 1st April 1907, gold bullion and gold coins, other than sovereigns and half-sovereigns, will not be received by the Mint Masters of the Calcutta and the Bombay Mints.

## No. 23.

## Gold, other than British Gold Coin, held by the Government of India at the end of each year from 1900–01 to 1908–09.

NOTE:—Before 1900–01 the Paper Currency Reports do not show what part of the total gold held by the Government of India was in a form other than that of British Gold Coin; but the amount received in that form before 1900–01 appears to have been 5,349,912·4*l.* (viz.:—4,450,007·9*l.* sent to England in 1900–01, as shown below, and 899,904·5*l.* held by the Government at the end of that year).

| Year. | Japanese Yen. | Other coin. | Bullion. | Total. | Remarks. |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | |
| 1900–01 | 732,621·9 | 12,211·1 | 145,671·5(1) | 899,904·5 | During the year 1,621,137·4*l.* Japanese Yen, 763,332·9*l.* Indian Mines Gold, 1,981,494·6*l.* Bazar gold, and 84,043·0*l.* bar gold were shipped to England. |
| 1901–02 | — | — | 103,175·9(2) | 103,175·9 | During the year 229,787*l.* Japanese Yen, 12,210*l.* other coin, 74,510*l.* Bazar gold, 572,097*l.* bar gold, and 2,817*l.* other bullion were shipped to England. |
| 1902–03 | — | — | 81,300·9(3) | 81,300·9 | During the year 102,614*l.* bullion was shipped to England. |
| 1903–04 | — | — | 4,940·2(3) | 4,940·2 | During the year 8,095*l.* Indian mines gold and 84,039*l.* Bazar gold were shipped to England. |
| 1904–05 | — | — | 8,415·9(3) | 8,415·9 | During the year 35,914*l.* bullion was shipped to England. |
| 1905–06 | — | — | 12,709·9(4) | 12,709·9 | During the year 44,806*l.* bullion was shipped to England. |
| 1906–07 | — | — | 25,204·7(4) | 25,204·7 | |
| 1907–08 | — | — | 25,204·7(4) | 25,204·7 | |
| 1908–09 | — | — | — | — | During the year 25,295*l.* bullion was shipped to England. |

(1) Including 1,291·4*l.* Mysore Mines gold and 74,506*l.* Bazar gold, &c. (2) Including 1,145·1*l.* Indian Mines gold, and 102,030·8*l.* Bazar gold, &c. (3) Bazar gold. (4) Indian mines gold.

# APPENDIX XLVII.

NOTE ON SOME FEATURES IN THE INDIAN TRADE AND CURRENCY FIGURES FOR THE FIRST TEN MONTHS OF THE YEAR 1913, HANDED IN BY MR. F. W. NEWMARCH, C.S.I., FINANCIAL SECRETARY AT THE INDIA OFFICE.

The figures of Indian trade and currency for the first 10 months of 1913 present several interesting features, the principal of which may be briefly summarised as follows :—

(1) A large decrease in the trade balance in favour of India, causing
(2) a reduced demand, during several months, for Council drafts, and
(3) greatly reduced imports of sovereigns.
(4) As a result of (3) a great diminution in the quantity of imported sovereigns passing into the Paper Currency Reserve. This has been accompanied by
(5) greatly increased gross issues of sovereigns from the reserve, but also by
(6) a still greater proportionate increase in the return of sovereigns from internal circulation.

Tables illustrating these various changes are appended. The following remarks may be added.

## I.—*Decrease in the Balance of Trade in India's favour.*

This has been due, not to any appreciable falling off in the amount of India's export of merchandise, the value of which for the first 10 months of 1913 fell below that for the corresponding period of 1912, by only 144,000*l.*, but mainly to a very great growth in the amount of the imports.

The reduction in the value of net exports for that period has been no less than 15,673,423*l.*

The marked growth of India's imports of commodities appears to be the natural consequence of a succession of years of prosperity.

## II.—*Reduced Imports of (a) Council Drafts, and (b) Sovereigns.*

A reduced demand for Council drafts began to show itself in January 1913 and became more marked as the year advanced. For seven weeks in June–August the amount offered for tender on each Wednesday was only 20 lakhs, as against 50 offered weekly during the same period of 1912, and minimum prices of 1*s.* $3\frac{15}{16}$*d.* for bills, and 1*s.* $3\frac{31}{32}$*d.* for telegraphic transfers were accepted during several weeks as compared with minima of 1*s.* 4*d.* and 1*s.* $4\frac{1}{16}$*d.*, respectively, in the same weeks of 1912. From the beginning of August, however, the demand revived rapidly, and from the beginning of September onwards both the amounts sold and the prices obtained were higher than in 1912. In October the amount offered on five successive Wednesdays was 120 lakhs, and the total amount sold in the month reached the altogether unprecedented figure for the time of year of 619 lakhs, realising an average price of 1*s.* 4·110*d.* per rupee. The demand slackened, however, somewhat towards the end of the month.

The extraordinary demand for Council drafts this autumn was due mainly to the very high prices ruling for the season's jute crop.

Monetary difficulties in Bombay and other parts of India no doubt contributed somewhat to enhance the demand for remittance, and the fact that it occurred at a time of year when Egypt had no sovereigns to spare for export, but on the contrary was importing large quantities, while Australia also had little to spare, rendered the competition for the Secretary of State's drafts all the keener. The total receipts from the sale of bills and transfers were 14,413,861*l.* from 1st April to 31st October and 22,623,835*l.** from 1st January to 31st October 1913, as compared with 12,161,064*l.* and 22,800,470*l.** for the corresponding periods in 1912, and

* These figures do not correspond with those given in the tables attached to this note. The value of the Secretary of State's bills and transfers imported into India in any month never corresponds with the amount received by the Secretary of State for bills, &c., sold by him in the same month, mainly because a varying amount of bills paid for in London in the latter part of one month are not received in India until the following month.

the average rates realised, for the seven months and ten months respectively, were 1*s.* 4·067*d.* and 1*s.* 4·063*d.* for the two periods, as compared with rates of 1*s.* 4·047*d.* and 1*s.* 4·083*d.* realised in 1912.

Imports of sovereigns into India in the first 10 months of 1913 were smaller by 11,391,652*l.* than in the corresponding period of 1912. Imports from Egypt continued on a moderate scale until June, in spite of the low rates at which Council bills were being sold.

### *III.—Paper Currency Reserve; decrease in receipts of sovereigns from abroad; increase in receipts from internal circulation; increase in gross issues.*

As a result of the great diminution in the imports of sovereigns into India, the quantity passed into the Paper Currency Reserve from the hands of importers in the first 10 months of 1913 showed a decrease of 11,061,000*l.* as compared with the same period of 1912. But the quantity returned into the reserve from internal circulation showed an increase of 3,742,000*l.* At the same time the total gross issues showed an increase of 5,388,000*l.* The interesting feature is the large increase in the return of sovereigns from circulation. It is true that it has been accompanied by a large increase in the issues of sovereigns to the public; but the rate of growth in the return of sovereigns from circulation has been greater than in the amount of the gross issues, whether we compare the two for the first 10 months of 1912 and of 1913 (increase in return from circulation, 43·5 per cent.; increase in gross issues, 33·8 per cent.) or whether we go back for three years and make the comparison with the first 10 months of 1910 (increase in return from circulation, 490·7 per cent.; in gross issues, 205·4 per cent.).

The figures seem to confirm the view that gold is going to an increasing extent into active circulation in India, and also to indicate that owing, perhaps, to some diminution in the practice of hoarding, the stock in circulation and in the currency reserve tends to become somewhat more self-supporting and less dependent for its maintenance on imports from abroad.

November 1913.

COMPARISON between the PERIODS January–October 1912 and January–October 1913 (10 months) (SUMMARY).

### *I.—Trade Figures.*

| | 1912. | 1913. | Increase (+) or Decrease (−) in 1913 as compared with 1912. |
|---|---|---|---|
| | £ | £ | £ |
| Net *exports* of Indian merchandise | 54,397,949 | 38,724,526 | −15,673,423 |
| Net *imports* of Gold bullion (*a*) (*b*) | 6,394,438 | 7,505,429 | + 1,110,991 |
| Net *imports* of Silver bullion (*b*) | 2,967,851 | 2,817,105 | − 150,746 |
| Net *imports* of Government paper | 566,113 | 514,694 | − 51,419 |
| Net *imports* of Council bills | 22,459,253 | 23,310,962 | + 851,709 |
| Net *imports* of Sovereigns | 19,551,157 | 8,159,505 | −11,391,652 |

### *II.—Currency Figures.*

| | | | |
|---|---|---|---|
| Gross receipts of sovereigns at Government Treasuries, &c. in India — from importers | 19,150,000 | 8,089,000 | −11,061,000 |
| Gross receipts of sovereigns at Government Treasuries, &c. in India — by return from circulation | 8,604,000 | 12,346,000 | + 3,742,000 |
| Total | 27,754,000 | 20,435,000 | − 7,319,000 |
| Gross issues | 15,948,000 | 21,336,000 | − 5,388,000 |
| Net receipts (+) or issues (−) | +11,806,000 | − 901,000 | −12,807,000 |

(*a*) Including coin other than British. (*b*) On private account only.

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